

**Report to the Audit and Governance
Committee**



Report reference: **AGC-013-2011/12**
Date of meeting: **22 September 2011**

**Epping Forest
District Council**

Portfolio: **Finance and Economic Development**

Subject: **Internal Audit Monitoring Report - April to June 2011**

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 2011/12:

- (a) the reports issued between April and June 2011 and the 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 2011/12 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 2011, and details the overall performance to date against the Audit Plan for 2011/12. 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 first quarter are listed in paragraph 6 below.
2. A number of systems audits were carried out in the first quarter which has included the completion of two major audits that were started toward the end of the last financial year, Waste Management and Housing Rents. Additional work was required for sample testing as identified by the external auditors which exceeded the days allocated in the plan, resulting in other work being delayed.

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 began on a simplified guidance for staff which will result in more directed training.

4. Attendance by the Chief Internal Auditor and Senior Auditor at a number of Corporate officer groups including Corporate Governance, and Risk Management continued and supervision and management time has included quality assurance of audit reports and working files.

5. The Chief Internal Auditor compiled the annual Corporate Governance Statement for publication with the Annual Statement of Accounts and developed the Bribery Act Policy for adoption by the Council.

Reports Issued

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

- (a) Full Assurance:
 - Business Plans; and
 - Housing Rent Collection and Arrears.
- (b) Substantial Assurance:
 - Payroll;
 - Corporate Procurement; and
 - North Weald Airfield.
- (c) Limited Assurance:
 - Stores – Depot Stocktaking.
- (d) No Assurance:
 - None.
- (e) At Draft Report Stage:
 - Housing Benefits;
 - Waste Management and Recycling; and
 - Bed and Breakfast Contract.

Follow Up of Previous Limited Assurance Audits (Appendix 3)

7. 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 June 2011.

Audit Plan 2011/12 (Appendix 4)

8. The status of the 2011/12 Audit Plan is set out at Appendix 4.

Performance Management

9. The Internal Audit Team has local performance indicator targets to meet in 2011/12, as set out below:

	Actual 2008/09 For year	Actual 2009/10 For year	Actual 2010/11 For year	Target 2011/12 For year	Actual 2010/11 Quarter 1	Actual 2011/12 Quarter 1
% Planned audits completed	95%	87%	82%	90%	14%	13%
% chargeable "fee" staff time	71%	69%	66%	72%	56%	70%
Average cost per audit day	£309	£300	£307	£300	£351	£TBA
% User satisfaction	85%	94%	86%	85%	-	86%

10. The indicators are calculated as follows:

(a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan. An additional column has been added to show the comparison with the quarter 1 figures for last 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.

(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.

11. The figure for planned audits completed of 13% falls short of the quarter 1 target of 22.5% due in part to the long term sickness of a member of staff who is being monitored through the Council's Managing Absence procedures. Additional work and top up testing for the External Auditors (PKF) and finalisation of the contracted out audits with Deloitte has also had an effect on this indicator.

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 2011**

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Business Plans 2011/12	Corporate	<p>Full Assurance The recommendation from the previous audit has been implemented. Business plans are produced and submitted in accordance with guidelines. Portfolio Holder approval is retained.</p>	<p>The application of guidelines for business planning is satisfactory. The recommendation from the previous audit has been implemented. There are no recommendations arising from this audit.</p>
Housing Rent Collection and Arrears	Housing Services	<p>Full Assurance There is a sound system of control designed to achieve system objectives, and the controls are being consistently applied.</p>	<p>The sample tested did not identify any evidence of non compliance of internal controls within the Housing Directorate systems and therefore it is considered that risks have been minimised.</p>
Payroll	Corporate Suport Services	<p>Substantial Assurance There is a sound system of controls in place for the Payroll function.</p>	<p>There are effective controls in operation to ensure that the payroll system holds a complete and accurate record of staff employed by the Authority and that basic salary payments are correctly calculated.</p> <p>The audit identified four priority two recommendations which are being actioned by management.</p>
Corporate Procurement	Corporate	<p>Substantial Assurance There is a sound system of internal control over procurement processes.</p>	<p>A small number of control weaknesses were identified in the following areas:, ordering and receipting of goods, and management information which are being addressed by management..</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
North Weald Airfield	Environment and Street Scene	<p>Substantial Assurance Audit review of North Weald Airfield showed that systems and controls currently in place are generally adequate in ensuring that processes run well and are compliant with Council Policy.</p>	<p>Several areas of concern have been identified and are in the process of being corrected by management.</p>
Stores – Depot Stocktake	Housing	<p>Limited Assurance Limited assurance, based on the unreliability of the stock records.</p>	<p>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, which means that the Authority cannot rely on the system to provide an accurate record of stocks held.</p>

**INTERNAL AUDIT
OUTSTANDING PRIORITY 1 ACTIONS 2011/12 – STATUS AS AT June 2011**

Appendix 2

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
<p>Building Maintenance Unit</p>	<p>Stock Check The stock take procedures could be relied upon. The store was closed for both the issue and delivery of stock for the two days taken to carry out the count.</p> <p>However, owing to the large number of discrepancies identified during the stocktake, the stock system cannot be relied upon to provide an accurate record of the physical stocks held by the Authority.</p> <p>The reasons for the differences identified between ledger stock and actual stock should be investigated and corrected.</p> <p>Delivery notes and stores requisitions should be marked to indicate that they have been entered on the system to prevent duplicate entries.</p>	<p>Assistant Director (Property)</p>	<p>Ongoing</p>	<p>Stock control has been included as a "Key Deliverable" as part of the Repairs Management Contractor tender.</p>	<p>In progress</p>	<p>It should be noted that the Housing Directorate inherited the current Stores management and IT system from the former Works Unit at the time of the corporate restructuring and, since that time, the Housing Directorate's Management has identified and recognised its inherent weaknesses. This has led to the inclusion of the provision of new stores system as a Key Deliverable within the External Repairs Management Contract. There is limited scope or justification for an improvement of the system until the new system can be introduced.</p> <p>A full audit of the Housing Repairs Service is currently in progress.</p>

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Licensing	Licensing Administration Reconciliations should be carried out in a timely fashion by a Senior Independent Officer.	Assistant Director (Legal)	October 2009	Problems identified with resourcing adequately trained staff plus financial reports need amendment to assist reconciliation.	In progress	Review currently in progress.
Decorating Allowances	Storage of Cards 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	Stock reconciliation taken place. New work instruction in draft form, which will include a separation of card stock from the repairs team who are the authorisers for crediting the cards.	In progress	Review currently in progress as part of the full audit of the Housing Repairs Service
Car Mileage Claims	Authorised signatories 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	Action has been implemented. Opportunity also taken to standardise forms and Directors now required to update lists at no more than 6 monthly intervals.	Actioned	To be reviewed 2 nd quarter.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Grounds Maintenance	Inventories 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	I can confirm that all Priority 1 recommendations as detailed in your e-mailed list were completed within the agreed time scales.	Actioned	To be reviewed.
Grounds Maintenance	Agency Staff 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	As above.	Actioned	To be reviewed.
Licensing Enforcement	Taxi Licensing Higher prioritisation of enforcement, with responsibility given over Licensing enforcement. Minimum service levels to be identified and implemented within working procedures.	Environment & Neighbourhoods Manager	April 2011	Agreed – Identifying minimum service level will assist with confirming the priority for this aspect of enforcement work, provide measurable targets and impetus for pro-active enforcement operations.	Actioned	To be reviewed 2 nd quarter
Norway House	Petty Cash Claims should be reimbursed monthly. Copies of Petty cash claims will be retained and all transactions will be recorded in future for reconciliation purposes.	Assistant Housing Needs Manager	December 2010	Completed. Monthly claims now being submitted and copies retained.	Actioned	Review currently in progress.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Norway House	Office hours Management will introduce a daily record of working hours for each officer. Timesheets will be signed off by Management at the end of each four weekly period.	Assistant Housing Needs Manager	January 2011	Completed. All forms will be stored in Housing Admin at end of each 4 weeks.	Actioned	Review currently in progress.
Norway House	Cash Summary sheets Income is banked, however cash summaries should be certified by a second officer to ensure income is banked correctly. All documentation should be sent to the civic offices in a timely manner to ensure cash is correctly posted. Management should ensure there is sufficient office coverage on the day of collection and income is collected weekly.	Assistant Housing Needs Manager	December 2010	Completed. As banking now arranged on regular basis requests to put returns on suspense account have reduced.	Actioned	Review currently in progress.
Norway House	Banking procedures Cash summaries should be certified by a second officer prior to collection to evidence income is banked correctly. Management should ensure there is sufficient office coverage on the day of collection and income is collected weekly. Cash summaries should be sent to the Civic Offices at the earliest opportunity for income reconciliation to the Council's bank account.	Assistant Housing Needs Manager	December 2010	Completed.	Actioned	Review currently in progress.

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>Training agreed and set for end of March 2010.</p> <p>Director reported to Audit and Governance Committee 14th February 2011</p>	In progress and hopefully target date will be achieved.	The Clerical assistant has started reconciling the spreadsheet of monies received to the general ledger. However, a report needs to be produced from M3-Northgate and training is required before this can be produced. Crystal report training is being lined up for the end of March.
Corporate Procurement	<p>Contract Standing Orders Officers in the Council should be reminded of their responsibility to comply with the Council's CSOs, in particular, the publication of works and the subsequent receipt of sufficient quotations/tenders.</p> <p>Where officers are unsure of the Council's requirements, they should liaise with officers in Procurement and seek appropriate advice on the matter before raising an order with a supplier.</p>	Officer working group consisting of Assistant Director of Housing, Senior Finance Officer: Procurement & Administration and Chief Internal Auditor.			In Progress	The Procurement Guide which is currently being market tested will remind all staff involved in procurement of the requirements of CSO's and will guide staff through the stages they must follow based on the value of the expenditure. The guide reminds staff to liaise with the Senior Finance Officer: Procurement & Administration for appropriate advice at the beginning of the procurement process.

Follow up of Limited Assurance Audits as at 30th June 2011

Appendix 3

Report Title	Directorate	Date Issued	Agreed Actions by priority	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
Commercial Property	Corp. Support	Dec 09	P1. 1 P2. 3	P2. 1	Q1 2011/12	One long term aim, acquisition of the property module – completion by March 2011
Building Maintenance Depot Stocktake	Housing	June 11	P1. 1		Q3 2011/12	Subject to major review by Assistant Head of Housing and insourced management.
Waste Management	Environment/ Street Scene	July 2010	P1. 3 P2. 1		Q2 2011/12	Review currently in progress.
Grounds Maintenance	Environment/ Street Scene	Sept2010	P1. 3 P2. 2		Q2 2011/12	Retention of contract documentation, annual review of inventories and retention of quotations.
Norway House	Housing	Nov 2010	P1. 4		Q2 2011/12	Review currently in progress.
Planning Fees	Planning and Economic development	Dec 2010	P1. 2 P2. 2	P1. 1	Q2 2011/12	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.
Freedom of Information Act	Office of the Chief Executive	Dec 2010	P1. 1 P2. 3	P1. 1 P2. 2	Q2 2011/12	See Quarter 3 report for details.

AUDIT PLAN 2011/12

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	15		PKF
Cash Office spot checks	verification	5		PKF
ICT				
Environmental controls/backup procedures	IT	10		PKF
Data and Network Security	IT	20		PKF
Disaster recovery/business continuity	IT	10		PKF/R8
TOTAL		250		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	follow up	5		R27
Building Control	system	20		R27
TOTAL		25		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	follow up	20	In Progress	R20
Public Health / Pest Control	system	15	Completed	R27
Car Parking	system	20		R27
North Weald airfield	establishment	15	In Progress	R27
Leisure contract	contract	15	In Progress	R20
TOTAL		85		
OFFICE OF THE CHIEF EXECUTIVE				
Members Services		10		R
Electoral services – data quality		15		R
TOTAL		25		

Audit area	Audit type	Days allocated	Completed	Risk Identifier
HOUSING				
Housing Rent Collection and Arrears	system/follow up	25		PKF/R27
Housing Lettings	follow up	5		AC
Depot	system/follow up	15	In Progress	
Norway House	Follow Up	15	In Progress	
Bed and breakfast contract	contract	5	Completed	
Stores - Depot stock take	stocktake	5	Completed	R23
TOTAL		70		
PARTNERSHIPS AND VOLUNTARY SECTOR				
Local Area Agreements	system	15		R22
TOTAL		15		
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		R15
Overtime and Committee Allowances	verification	10		R
Car Mileage claims	verification	10	In Progress	R
Health and Safety Policy	system	5		R
Estates/Facilities Management/Other				
Commercial Property portfolio	system/follow up	20		R9
Asset Management system	Follow up	5		R18
Non-HRA Repairs	verification	5		R2
Fleet Operations income	system	5		R27
Legal				
Licensing	system	15	In Progress	R27
TOTAL		110		
MISCELLANEOUS				
Key and Local Performance Indicators	verification	15	In Progress	R
Business Plans	verification	10	Completed	R
CONTRACTS				
Contract Compliance	System/follow up	15		R20

Audit area	Audit type	Days allocated	Completed	Risk Identifier
CORPORATE				
Corporate Procurement	system/follow up	15		AC/R2
Gifts and Hospitality (Officers)	system/follow up	10		R
Gifts and Hospitality (Members)	system/follow up	10		R
Data Protection Act	system	5		R18
Follow up of Priority 1 Audit recommendations	follow up	10		R23
CORPORATE MEETINGS				
Governance Statement	management review	5	Completed	AC/PKF
FRAUD AND CORRUPTION				
National Fraud Initiative (NFI)		15		R23
TOTAL		110		
TOTAL DAYS ALLOCATED		690		
Contingency/Spot checks/Minor investigations		40		R23
Corporate/Service Advice		45		
TOTAL		775		

Risk Identifier

Key

AC

Audit Commission

PKF

External Audit

R no.

Risk No. in Corporate Register

Reputation of

R

Council