

Audit Detailed Report

May 2006



Review of Internal Audit

Epping Forest District Council

Audit 2005/2006

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Council

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

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Summary report

Introduction

- 1 Internal Audit is an important element of the control environment within Epping Forest District Council (EFDC). The Council has a duty to maintain an adequate and effective internal audit function. This responsibility is deemed to be discharged if the standards described in the CIPFA Code of Practice for Internal Audit in Local Government in the UK (2003), as interpreted by the CIPFA Local Government Internal Audit Manual, are implemented. It is therefore incumbent on all local authorities to have effective procedures in place to ensure that the service provided meets the requirements of these standards.
- 2 The Audit Commission's Code of Audit Practice requires us to make an assessment of whether Internal Audit meets the mandatory standards and whether reliance can be placed on their work in discharging our own duties under the Code of Audit Practice.

Background

- 3 The Internal Audit function at EFDC is provided by an in-house team supplemented by external contract staff when required to cover staff absences or areas requiring particular expertise.
- 4 Our review of the Internal Audit function and the work that they have carried out during 2005/06 covered the following areas:
 - a detailed assessment of their compliance with the 2003 CIPFA Code of Practice for Internal Audit in Local Government in the UK (the Code of Practice), as interpreted by the CIPFA Local Government Internal Audit Manual (the Audit Manual); and
 - an assessment of the level of coverage, and the extent of reliance that we can place on their work, relating to core processes and significant financial systems.

Audit approach

- 5 Our audit comprised a full review of the Internal Audit function against the ten standards set out in the Code of Practice, as interpreted by the Audit Manual. We also carried out detailed reviews of the following 2005/06 audit files:
 - debtors;
 - creditors;
 - general ledger;
 - housing rents;

- payroll;
 - treasury management; and
 - cash receipting.
- 6 The review concentrated on the degree of reliance both we and the Council could place on the work of Internal Audit.

Main conclusions

- 7 The Internal Audit function at EFDC is compliant with the Code of Practice, and there are also examples of good practice including:
- clear terms of reference which meet all requirements of the Code of Practice;
 - detailed, risk-based annual audit plans which include full coverage of the control environment;
 - procedures in place to ensure an adequate degree of independence, including:
 - the status of Internal Audit within the organisation;
 - rotation of audits between staff; and
 - auditors being free from operational duties;
 - regular reporting to members on Internal Audit performance and issues arising from audits via the Finance and Performance Management Cabinet Committee;
 - a positive and cooperative working relationship with external audit;
 - full discussion of the outcomes of audits with relevant managers;
 - recommendations which are generally well accepted by managers; and
 - effective procedures for following up on recommendations.
- 8 Audit files reviewed were of a high quality, and working papers were clear and easy to follow. All key controls were covered and conclusions reached were consistent with findings. Reports were comprehensive and well written.
- 9 We have made a small number of recommendations as outlined below.

<i>Recommendations</i>
<i>R1 The Head of Internal Audit should carry out periodic internal quality reviews to assess the ways in which Internal Audit benefits the organisation or adds value. Alternatively these issues could be included on the review sheet which is filled in by the Head of Internal Audit for each audit assignment.</i>
<i>R2 Both the annual report and individual audit reports should contain reference to the above.</i>

Recommendations

R3 As a matter of best practice it would be advisable to put in place more formal arrangements for highlighting issues identified during audit assignments for inclusion in the Statement on Internal Control.

R4 Auditors should receive their planned amount of training.

Detailed report

Table 1 Review of Internal Audit against the CIPFA Code of Practice

CIPFA Code of Practice Standard	Requirement	Findings
1. Scope of Internal Audit	<p>The purpose, authority and responsibility of Internal Audit (IA) should be formally defined by the organisation in terms of reference which:</p> <ul style="list-style-type: none"> • establish the responsibilities and objectives of IA; • establish the reporting lines and relationships between the Head of Internal Audit (HIA) and: <ul style="list-style-type: none"> - those charged with governance; - those parties to whom the HIA may report; • define the organisational independence of IA; • embrace the control environment of the organisation including all its operations, resources, services and responsibilities in relation to other bodies; • enable the HIA to deliver an audit opinion; and • establish IA's right of access to all records, assets, personnel and premises and it's authority to obtain such information and explanations as it considers necessary. <p>IA objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, efficient and effective use of resources.</p>	<p>The terms of reference of Internal Audit (IA) are set out in the Council's constitution. The terms of reference meet all the requirements of the Code of Practice as stated.</p>

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CIPFA Code of Practice Standard	Requirement	Findings
	<p>IA should devote particular attention to any aspects of the control environment affected by significant changes to the organisation's risk environment.</p> <p>IA does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors should, however, be alert in all their work to the risks and exposures that could allow fraud or corruption.</p> <p>The HIA should make arrangements to be informed of all suspected or detected fraud, corruption or impropriety.</p>	<p>IA annual business plans include full coverage of the control environment as defined by the Code of Practice. The terms of reference clearly outline IA's responsibility to review the system of internal control.</p> <p>A risk assessment is included in the annual business plan. This forms the basis for setting priorities for the next year. Risk management systems for the Council were not fully embedded during 2004/05.</p> <p>Roles and responsibilities are clearly set out in the anti-fraud strategy, fraud response plan and confidential reporting policy.</p> <p>The HIA is made aware of all detected incidents, action is taken and conclusions reached.</p>

CIPFA Code of Practice Standard	Requirement	Findings
2. Independence	<p>IA should be sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.</p> <p>The status of IA should enable it to function effectively. The HIA should have sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management in the organisation. He or she should not report to or be managed at a lower organisational level than the corporate management team.</p> <p>IA should be involved in the determination of its priorities in consultation with those charged with governance. Accordingly the HIA should have direct access to, and freedom to report in his or her own name without fear or favour to, all officers and members and particularly to those charged with governance.</p> <p>Individual auditors should have an impartial, unbiased attitude, characterised by integrity and an objective approach to work.</p> <p>Auditors should not be assigned to assurance work in areas where they have had an operational or other involvement until the HIA determines that a suitable period has elapsed.</p>	<p>The status of IA is set out in the terms of reference. It is sufficient to enable IA to function effectively. The HIA reports to one of the Joint Chief Executives, and provides regular reports to the Management Board and members.</p> <p>The main priority is to test the significant financial systems each year. The remainder of the plan is determined in consultation with management and external audit, based on a risk assessment. The HIA has the freedom to report to the management board and members.</p> <p>There is no evidence of bias in any IA work reviewed.</p> <p>Auditors do not have operational responsibilities and have not had in the past at this Council. Audits are rotated between auditors.</p>

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CIPFA Code of Practice Standard	Requirement	Findings
	<p>Assignment of ongoing audit responsibilities should be rotated within the audit team.</p> <p>Individual auditors should declare interests in accordance with the organisation's requirements. The HIA should review these interests and take appropriate action.</p>	<p>As with all Council officers, IA staff have a duty to declare interests to their line managers. IA staff have not registered any interests.</p>
<p>3. Audit Committees</p>	<p>IA must report to those charged with governance.</p> <p>The HIA should attend audit committee meetings and have access to the Chair of the committee.</p>	<p>(The Council does not have a dedicated Audit Committee but the Finance and Performance Management Cabinet Committee performs this function).</p> <p>IA report to the Finance and Performance Management Cabinet Committee (F & PM Cabinet Committee). This committee is identified as being the member body charged with governance.</p> <p>The HIA attends all committee meetings at which audit matters are discussed and has full access to members of the committee.</p>

CIPFA Code of Practice Standard	Requirement	Findings
4. Relationships	<p>Audit work should be planned in conjunction with management as far as possible, particularly in respect of the timing of audit work.</p> <p>The organisation should define the roles and responsibilities of management and IA in respect of fraud, including the involvement of external agencies such as the police.</p> <p>IA should seek to meet regularly with the External Auditor to consult on audit plans, discuss matters of mutual interest, discuss common understanding of audit techniques, methods and terminology, and to seek opportunities for cooperation in the conduct of audit work.</p> <p>IA should liaise with other internal review agencies or functions and should consider the work of external inspection bodies.</p>	<p>The terms of reference set out the responsibility of the HIA to consult with the relevant chief officer on the timing and nature of audits. The annual business plan is prepared in consultation with management.</p> <p>The anti fraud strategy and fraud response plan clearly outline roles and responsibilities.</p> <p>There is regular communication between IA and External Audit. Wherever possible IA work is relied upon to reduce External Audit testing.</p> <p>IA has established effective working relationships with the Best Value team and Monitoring Officer.</p>
5. Staffing, training and development	<p>IA should be appropriately staffed in terms of numbers, grades, qualification levels and experience.</p> <p>The HIA should be both professionally qualified and experienced.</p>	<p>There is an audit assistant post which has been vacant for over a year. However, the vacancy has allowed the HIA to appoint a contractor to carry out specialist work.</p> <p>The HIA is CIPFA qualified and has many years experience in local government.</p>

CIPFA Code of Practice Standard	Requirement	Findings
	<p>The HIA is responsible, in accordance with the organisation's human resources processes, for recruiting staff with the appropriate intellectual qualities, personal attributes, competences and qualifications.</p> <p>All internal auditors have a personal responsibility to undertake a programme of continuing professional development.</p> <p>The HIA should ensure that appropriate provision is made for maintaining and developing the competence of audit staff. They should monitor the ongoing training activity of all staff in IA.</p>	<p>Recruitment is carried out by the HIA with the support of Human Resources.</p> <p>A training plan is included in the annual business plan. Progress against the plan is monitored quarterly. However, staff only received 15 out of the 42 total planned training days in 2004/05. This trend has continued in 2005/06 with 20 of the planned 30 days being received. One auditor has started training for the CIPFA Diploma in Public Audit which is included in this total. (See recommendation 4)</p>
6. Audit Strategy	<p>The HIA should develop and maintain a strategy for delivering the IA service as per the terms of reference. This will include how the service will be provided, ie internally, externally or a mixture.</p> <p>The strategy should state how the assurance for the annual internal control statement will be demonstrated. This will include how the HIA will review the organisation's corporate governance arrangements, risk management processes and key internal control systems.</p>	<p>The annual business plan includes the ongoing strategy for delivering the IA service, including the use of external resources.</p> <p>The strategy includes coverage of corporate governance arrangements, risk management and key internal controls. This will provide assurance for the internal control statement.</p>

CIPFA Code of Practice Standard	Requirement	Findings
	<p>IA should prepare a risk-based periodic audit plan designed to implement the audit strategy. The plan should be approved by the organisation.</p> <p>Any difference between the plan and the resources available should be identified and reported appropriately.</p> <p>The periodic plan should outline the assignments to be carried out and the broad resources and skills required to deliver the plan.</p> <p>The periodic plan should be kept under review to identify any amendment needed to reflect changing priorities and needs.</p>	<p>The annual business plan is based on a risk analysis carried out with reference to the Council risk register. Following consultation with the Head of Finance, the Management Board approves the plan and it is presented to the Overview and Scrutiny Committee at member level for consultation prior to being approved F & PM Cabinet Committee.</p> <p>The annual business plan is based on an estimate of the available resources. Quarterly reports to the Finance and Performance Management (F & PM) Cabinet Committee include a report on staffing requirements and resources including any action to be taken.</p> <p>Quarterly work plans are produced and reviewed by the F & PM Cabinet Committee. These allocate audits to auditors based on skills required.</p> <p>Progress against the annual business plan is reported quarterly to the F & PM Cabinet Committee. Plans include a contingency for unplanned work which helped to accommodate the unplanned investigations required during 2005/06.</p>

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CIPFA Code of Practice Standard	Requirement	Findings
<p>7. Management of Audit Assignments</p>	<p>For each audit assignment a detailed brief should be prepared and discussed with appropriate line managers. These briefs should establish the assignment's objectives, and its resource and reporting requirements.</p> <p>Internal auditors should apply a risk-based systematic approach.</p> <p>Work undertaken should be designed to give the evidence needed to support the audit opinion.</p> <p>IA should discuss findings with management. The HIA should inform the organisation of any remaining material weaknesses not addressed in proposed improvement plans.</p> <p>The HIA should specify the required standard of documentation and ensure standards are maintained. Working papers should enable an experienced auditor, with no prior connection with the assignment, to assess the work carried out and conclusions reached.</p> <p>The HIA should develop standards and retention requirements for all audit records and documentation.</p>	<p>A job sheet for each assignment outlines the objectives and scope of the audit, resources allocated and reporting arrangements. These are agreed with appropriate managers.</p> <p>A full risk assessment is carried out during planning.</p> <p>In all audits reviewed, auditors applied appropriate techniques to cover all relevant controls and meet the audit objectives.</p> <p>The outcomes of all audits are discussed with management and improvement plans which address all material weaknesses are agreed.</p> <p>All audit files reviewed contained complete and clear working papers which supported the conclusions given. Working papers are reviewed by the HIA or the Senior Auditor to ensure standards are maintained.</p> <p>There is a set policy for the retention of audit files.</p>

CIPFA Code of Practice Standard	Requirement	Findings
	<p>IA should follow up on management action arising from its assignments.</p> <p>The HIA should develop procedures for management responses that are judged to be inadequate.</p> <p>Where follow-up reveals a change in the opinion, this should be reported to management.</p> <p>The findings of follow up reviews should provide a basis for planning future work.</p>	<p>A substantial number of follow-up audits are included in the annual plan.</p> <p>Progress against implementation of recommendations is reported quarterly to the F & PM Cabinet Committee.</p> <p>Any change of opinion is reported in the follow-up audit report.</p> <p>Findings of follow-up reviews are included in the planning risk assessment.</p>
8. Due professional care	<p>Internal Auditors apply due professional care in performing their duties. Due professional care should be appropriate to the objectives, complexity, nature and materiality of the audit being performed.</p> <p>Auditors comply with the ethical principles of integrity, objectivity, competence and confidentiality.</p>	<p>The HIA reviews all audit assignments for quality and compliance with standards. Recommendations are generally accepted by managers. A 2003 customer satisfaction survey showed a high level of satisfaction with the work of IA.</p> <p>Auditors are aware of and follow the ethical guidance in the CIPFA Code of Practice They are also bound by the Council's whistle-blowing and anti-fraud policies and by the ethical codes of the professional organisations to which they belong.</p>

CIPFA Code of Practice Standard	Requirement	Findings
9. Reporting	<p>The HIA should determine the way in which findings will be reported and should set standards for reporting.</p> <p>IA should discuss findings and agree recommendations with management before issuing the final report.</p> <p>The HIA should provide a written report to those charged with governance timed to support the Statement on Internal Control (SIC).</p> <p>The aim of audit reports is to:</p> <ul style="list-style-type: none"> • prompt management action to implement recommendations; and • provide a formal record of points arising from the internal audit assignment and of agreements reached with management. <p>The HIA should determine the circulation of reports having due regard to their confidentiality, the organisation's protocol and legislative requirements.</p>	<p>All reports reviewed were clear, concise and followed a consistent reporting style.</p> <p>Draft reports are discussed with recipients.</p> <p>The SIC is put together by the Head of Finance in liaison with the HIA, using the IA annual report with input from the Management Board. However, there are no procedures to flag up issues raised in individual reports for inclusion in the SIC (see recommendation 3).</p> <p>Action plans with agreed timetables and responsible officers were found in all reports reviewed.</p> <p>All executive summaries are sent to the Management Board, the Head of Finance (unless there are no financial implications), Heads of Service and other appropriate managers. Distribution lists for all reports reviewed were found to be appropriate.</p>

CIPFA Code of Practice Standard	Requirement	Findings
	<p>The HIA should present a formal annual report to the organisation which presents an opinion on the overall adequacy of the internal control environment. It should also:</p> <ul style="list-style-type: none"> • disclose any qualifications to that opinion; • present a summary of the audit work undertaken; • draw attention to issues relevant to the statement on internal control; • compare the work actually undertaken with the work planned and summarise the performance of the IA function; and • comment on compliance with CIPFA standards. <p>The HIA should make arrangements for interim reporting to the organisation.</p>	<p>The IA annual report includes an opinion on the adequacy of the internal control environment. This is fully compliant with the requirements of the Code of Practice with one exception; the report does not specifically draw attention to issues relevant to the SIC.</p> <p>Quarterly reports are sent to the Management Board and F & PM Cabinet Committee.</p>
10. Quality Assurance	<p>The HIA should establish policies and procedures in a local audit manual to guide staff.</p> <p>The HIA should ensure that assignments are allocated to staff with the appropriate skills, experience and competence.</p> <p>The HIA should ensure that IA staff are appropriately supervised throughout all assignments.</p>	<p>IA has adopted the CIPFA audit manual as their local manual.</p> <p>Work is allocated by the HIA according to skills and experience, taking into account the need to provide auditors with sufficient breadth of experience.</p> <p>All audits are reviewed and supervised by the HIA with support from the Senior Auditor.</p>

CIPFA Code of Practice Standard	Requirement	Findings
	<p>The HIA should establish a set of performance measures and criteria for the IA function.</p> <p>IA staff should be subject to an ongoing process of appraisal and supported development.</p> <p>The HIA should make provision for internal quality reviews to be undertaken. These should appraise:</p> <ul style="list-style-type: none"> • the quality of work; • the quality of supervision; • compliance with standards; • compliance with the local audit manual; • the ways in which the IA function benefits the organisation; and • achievement of performance indicators. <p>The HIA should include comment on the result of these reviews in the annual report.</p>	<p>Approved performance measures are included in the annual business plan and are reported quarterly to the F & PM Cabinet Committee.</p> <p>All auditors are subject to an annual appraisal in line with the Council's policy. The team also hold regular meetings at which performance issues and training requirements may be discussed.</p> <p>As the HIA reviews most audit files no separate periodic quality review is carried out. The review covers the quality of work, compliance with the assignment definition, compliance with the CIPFA audit manual and justification of time spent. However, the review sheets used do not explicitly demonstrate that all the issues listed have been considered (see recommendation 1). Periodic reviews of achievement of performance indicators are also carried out.</p> <p>The review process is outlined in the annual report. However, the report does not include information on the result of these reviews (see recommendation 2).</p>

CIPFA Code of Practice Standard	Requirement	Findings
	<p>Following a review, the auditors involved should develop an action plan for addressing weaknesses identified.</p> <p>IA should be subject to a regular external quality review undertaken by appropriately qualified and independent reviewers.</p>	<p>In recent years there has been no need for any action to be taken due to underperformance. Issues found during review would be raised during regular team meetings and discussed with the individual auditor.</p> <p>The Audit Commission carries out a full review of IA every three years supplemented by a review of individual files annually.</p>

Table 2 File review findings

Requirement	Finding
Working papers are clear and properly supported.	In all files working papers were clear and well supported.
Appropriate conclusions have been made from evidence on the file.	All conclusions made are appropriate.
There are internal control evaluations for each expected control detailing findings and conclusions.	Internal control questionnaires are completed for each audit. These are referenced to findings.
All key controls are covered.	No key controls were omitted in the files reviewed.
A risk assessment has been carried out and reasonable conclusions have been made.	A risk assessment has been carried out in all audits reviewed. Conclusions reached were found to be reasonable.
There is evidence on file that findings are discussed with management.	In all audits reviewed findings have been discussed with management.
Progress towards the implementation of recommendations has been reviewed since the audit.	There is evidence that recommendations arising from audits are regularly followed up.
Standard working papers are used which detail: <ul style="list-style-type: none"> objectives and scope of the audit; budgeted time and staff allocation; supervision and allocation of responsibilities; and methods/procedures and reporting arrangements. 	Working papers meeting these requirements were found on all files reviewed.
There is evidence on file of the planned number of hours and actual time taken.	The budgeted number of hours was recorded on all files reviewed. However, in most cases no note was made of the actual time taken or of reasons for any variances although this is reported in the quarterly monitoring reports.

Requirement	Finding
<p>The file has been reviewed by the Head of Internal Audit to ensure:</p> <ul style="list-style-type: none"> • work has been completed within time budget; • work meets the audit objectives; and • working papers are adequate to support conclusions. 	<p>Evidence of review was found on all files. However, there is no evidence that the HIA has specifically reviewed the time taken to complete the work on individual files but separate management reports are used to do this and the results are reported in the quarterly management reports.</p>
<p>The report is clear and concise and sets out clearly:</p> <ul style="list-style-type: none"> • the purpose and scope of the audit; • the opinion given; • results and recommendations; and • agreed action. 	<p>All reports reviewed met these requirements.</p>

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	R1 The Head of Internal Audit should carry out periodic internal quality reviews to assess the ways in which Internal Audit benefits the organisation or adds value. Alternatively these issues could be included on the review sheet which is filled in by the Head of Internal Audit for each audit assignment.	1	Head of Internal Audit	Yes	<p>We are aware of the need for Internal Audit to demonstrate that it maintains an effective level of performance, and that the work is quality reviewed. We also seek to maximise the benefit of audit work without jeopardising Internal Audit's wider responsibilities in reporting objectively on the control environment.</p> <p>The internal review sheet will be adapted to include an explicit reference to quality review, compliance with CIPFA standards, and benefits to the organisation.</p>	June 2006
	R2 Both the annual report and individual audit reports should contain reference to the above.	1	Head of Internal Audit	Yes	Individual audit reports will be reviewed on this basis during 2006/07, and reference will be made in the Annual Report for that year.	June 2006

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	R3 As a matter of best practice it would be advisable to put in place more formal arrangements for highlighting issues identified during audit assignments for inclusion in the Statement on Internal Control.	1	Head of Internal Audit	Yes	Individual audit reports will include appropriate references to issues for inclusion in the SIC from 2006/07 onwards, and will be brought to the attention of Corporate Management in the management summary issued for each report.	June 2006
	R4 Auditors should receive their planned amount of training.	1	Head of Internal Audit	Yes	An Auditor will be progressing to the second stage of the Diploma in Public Audit during 2006/07; training and refresher opportunities will continue to be sought for all other team members.	Ongoing