Report to the Audit and Governance Committee

Report reference: AGC-025-2013/14
Date of meeting: 6 February 2014

Epping Forest District Council

Portfolio: **Finance and Technology**

Subject: **Internal Audit Monitoring Report - October to December 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 third quarter monitoring report for 2013/14:**

    (a)   **The reports issued between October and December 2013 and significant findings (Appendix 1);**

    (b)   **The Outstanding Priority 1 Actions Status Report (Appendix 2): and**

    (c)   **The 2013/14 Audit Plan status report (Appendix 3).**

Executive Summary:

This report provides a summary of the work undertaken by the Internal Audit Unit between October and December 2013, and details the overall performance to date against the Audit Plan for 2013/14. The report also contains a status report on outstanding 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 third quarter are listed in paragraph 3 below.

2.   Audits completed in the third quarter have included a number of financial systems and the prevention and detection of fraud, the detailed findings of which are in appendix 1.

Reports Issued

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

(a) <u>Full Assurance:</u>
  - Housing Contracts;

(b) <u>Substantial Assurance:</u>
  - Budgetary Control;
  - Risk Management and Insurance;
  - General Ledger;
  - National Non Domestic Rates;
  - Countrycare;
  - Waste Management and Recycling;
  - Recruitment and Selection;
  - Commercial Property Portfolio;
  - Fleet Operations Income; and
  - Contracts / Procurement (Fraud Prevention and Detection);

(c) <u>Limited Assurance:</u>
  - None; and

(d) <u>No Assurance:</u>
  - None.

<u>Limited Assurance</u>

4.   No limited assurance reports were issued in this quarter.

<u>Follow Up of Previous Priority 1 Recommendations</u>

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.

<u>Audit Plan 2013/14 (Appendix 3)</u>

6.   The status of the 2013/14 Audit Plan is set out at Appendix 3.

<u>Performance Management</u>

7.   The Internal Audit Team has local performance indicator targets to meet in 2013/14, as set out below:

	Actual 2010/11 For year	Actual 2011/12 For year	Actual 2012/13 For year	Target 2013/14 For year	Actual 2012/13 Quarter 3	Actual 2013/14 Quarter 3
% Planned audits completed	82%	82%	85%	90%	63%	64%
% chargeable "fee" staff time	66%	71%	69%	72%	69%	70%
Average cost per audit day	£307	£213	£243	£245	£229	£232
% User satisfaction	86%	89%	N/A	90%	N/A	90%

8.   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. The third quarter figure has dropped to 70% (second quarter 77%) due to staff sickness.

(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.

(d)   User satisfaction has been based on a customer survey form. A replacement electronic form has been developed for use from April with the new audit plan from which data is currently compiled. The new form has been simplified to encourage completion which has resulted in a higher return rate and positive comments from managers.

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   No
relevance to the Council's general equality duties, reveal any potentially adverse equality implications?

Where equality implications were identified through the initial assessment   No
process, has a formal Equality Impact Assessment been undertaken?

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.

EFDC - Definition of Levels of Assurance

Assurance levels:

The level of assurance to be applied will be based on the auditor's assessment of the extent to which system objectives are met, with the agreement of the Chief Internal Auditor. As a guide, the following triggers will be used, taking into account the level of risk of error, loss, fraud or damage to reputation.

Level	Evaluation opinion	Priority Triggers
Full assurance	There is a sound system of control designed to achieve system objectives, and the controls are being consistently applied.	Priority 3s or no audit recommendations.
Substantial assurance	There is a sound system of control designed to achieve system objectives, and the controls are generally being consistently applied. However, there are some minor weaknesses in control, and/or evidence of non-compliance, which are placing some system objectives at risk.	Priority 2s and one Priority 1 (if assessed as a low risk).
Limited assurance	There is a system of control in place designed to achieve system objectives. However, there are significant weaknesses in the application of control in a number of areas, and / or evidence of significant non-compliance, which are placing some system objectives at risk.	Between 1 and four 1s and (usually) several Priority 2s.
No assurance	The system of control is weak, and / or there is evidence of significant non-compliance, which exposes the system to the risk of significant error or unauthorised activity.	Five or more Priority 1s.

Priority Ratings

Each audit finding will generate an audit recommendation. These recommendations will be prioritised in accordance with the following criteria:

Priority 1 – Observations refer to issues that are fundamental to the system of internal control. We believe that these issues have caused or will cause a system objective not to be met and therefore require management action as a matter of urgency to avoid risk of major error, loss, fraud or damage to reputation. Failure to apply a Financial Regulation or Contract standing Order will normally be in this category.

Priority 2 – Observations refer mainly to issues that have an important effect on the system of internal control but do not require immediate management action. System objectives are unlikely to be breached as a consequence of these issues, although Internal audit suggested improvement to system design and / or more effective operation of controls would minimise the risk of system failure in this area.

Priority 3 – Observations refer to issues that would if corrected, improve internal control in general and ensure good practice, but are not vital to the overall system of internal control.

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Housing Contracts	Housing	**Full Assurance** The audit did not highlight any areas of concern and found a clear audit trail of the process supported by the required documentation. No recommendations have been raised.	The review of Housing Contracts showed excellent understanding of the required processes and policy. Each required stage could be evidenced and that the CSO'S are fully adhered to. Supporting documentation is retained and monitoring is demonstrated.
Budgetary Control	Finance and ICT	**Substantial Assurance** The systems and controls in place in relation to budget setting, monitoring and reporting are operating effectively. However, the final budget working papers should be signed by the relevant spending control officer as evidence that the budget under their control is agreed, and the Councils key objectives should be approved prior to approval of the budget in February each year.	Budgets are prepared in accordance with Council policies, which are set out in Financial Regulations and were approved by full Council on 19th February 2013. Some final estimates were not signed by the relevant Spending Control Officer as evidence that they agree with the budgets under their control. There is a good level of budget monitoring and reporting in the Authority. Monthly cost centre monitoring reports, showing actual expenditure against budget, are sent to Spending Control Officers in order for them to monitor their budgets. These are also used as the basis for discussing budgets within directorates; a standing item on directorate team meeting agendas.
Risk Management and Insurance	Finance & ICT	**Substantial Assurance** There is a sound system in place for identifying and managing risk. However training should be provided to ensure risk management is fully embedded within the Authority.	Risk Management processes are in place. The Risk Management Group is responsible for maintaining the Corporate Risk Register. There are sound arrangements in place for processing insurance claims. Records are

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			retained.
General Ledger	Finance & ICT	**Substantial Assurance** The systems and controls surrounding the processing of data on the general ledger are operating satisfactorily. A recommendation has been raised with respect to updating the procedure notes.	Data from the feeder systems is completely and accurately transferred to the general ledger. The system automatically rejects any invalid codes loaded by Journal entry. These corrections are made immediately and reposted. Reconciliations between the general ledger and the feeder systems are carried out in the directorates raising the feeder system journal transfer.
National Non Domestic Rates	Finance & ICT	**Substantial Assurance** The section has well established procedures for ensuring that the NNDR database is complete and accurate and the liability is correct. Income and refunds are accurately recorded but should be reconciled regularly to the general ledger to identify any discrepancies.	The NNDR database, Academy, holds a complete and accurate record of hereditaments, and amendments are promptly and correctly actioned. The liability is correctly calculated by Academy with reference to the system parameters, rateable value and any applicable reliefs or exemptions. Entitlement to the relief or exemption is checked and authorised prior to inputting to the system. However, empty properties should be inspected as soon as possible after notification.
Countrycare	Planning & Economic Development	**Substantial Assurance** The systems and controls within Countrycare are operating effectively.	The systems and controls in relation to the purchase of goods and services are carried out in accordance with Financial Regulations and good practice. However, the inventory list should be updated to ensure it records all assets currently held by the section.

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			Sundry debtors are raised for all work carried out for other organisations. Consideration has been given to formalising the arrangements with Service Level Agreements, and this is currently with Legal Services.
Waste Management and Recycling	Environment and Street Scene	**Substantial Assurance** The controls surrounding the monitoring of the waste management contract payments and recycling credit income are operating effectively, and there is a good separation of duties between authorising orders and invoices.	The waste management contract payments are properly monitored and authorised. Recycling credit income due to the Authority has been correctly calculated and billed to Essex County Council. Stock counts are carried out twice yearly, although this was not independently verified by Internal Audit. Internal Audit will attend the year end stock count.
Recruitment and Selection	Corporate Support Services	**Substantial Assurance** The current Recruitment and Selection Policy is in the process of being reviewed and amended.	Management and Human Resources need to ensure documentation is completed and retained on file and that procedures are operating satisfactorily. A review into the most cost effective and efficient advertising methods should be undertaken. This will ensure value for money is attained whilst still enabling the authority to select suitable candidates for vacant roles.
Commercial Property Portfolio	Corporate Support Services	**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.	The excel spreadsheets, which are used by the Valuers to manage their own portfolio of properties, are not as secure as GVA, It is recognised that GVA does not lend itself to day-to-day property management, and as a new IT system is currently being implemented, no recommendation has been raised in relation to this. However, the data on GVA must be checked to ensure it is accurate prior to transferring the

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			data to the new property management system. The commercial valuation forms should be approved by the Chief Estates Officer prior to sending the notices to the tenants, and the procedures checklists should be used by the valuers to enable progress to be monitored.
Fleet Operations Income	Corporate Support Services	**Substantial Assurance** The systems and controls surrounding the recording, reconciliation and monitoring of fleet operations income are operating satisfactorily.	MOT and cab inspection income is recorded manually on 'booking-in' sheets. These are checked to the VOSA reports of MOTs, the licences issued, and the income received each day. Any discrepancies are followed up promptly.
Contracts / Procurement (Fraud Prevention and Detection)	Finance & ICT	**Substantial Assurance** There was no evidence of fraudulent activity found. However there were issues identified which need to be addressed to reduce the risk to the Council.	Tender evaluation reports are not standardised across the organisation. There were instances where portfolio holders approved the scheme and expenditure but were not always notified of the outcome of the tender evaluation; tender evaluations were not routinely contained within the legal contract files.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Recruitment and Selection	Management to be reminded of the importance of ensuring the recruitment process is fully documented, including all inductions completed timely and all required paperwork provided to the employee.	Assistant Director HR	30/4/14	Management will be reminded to complete and record all inductions. The HR apprentice will update the checklist for employees when filing the PDR and data cleanse forms.		
Commercial Property Portfolio	Some rent review dates on GVA do not agree to the information held on the Valuers spreadsheets. Therefore the data held on GVA should be checked to ensure that it is correct prior to transferring it to the new IT system.	Chief Estates Officer	31/3/14	Agreed. The data will be cleansed before being loaded onto the new system. There are currently delays in the implementation of the new system.		

Audit area	Audit type	Days allocated	Completed	Risk Identifier
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15	Completed	FFS
Sundry Debtors	system/follow up	15	Completed	FFS
Creditors	system/follow up	15		FFS
Treasury Management	system/follow up	15		FFS/R26
Budgetary Control (capital and revenue)	system/follow up	10	Completed	FFS
Risk Management and Insurance	system/follow up	15	Completed	FFS
Main Accounting and Financial Ledger	system/follow up	15	Completed	FFS
Housing Benefits	system/follow up	20		FFS
Council Tax	system/follow up	20	In Progress	FFS/R27/AC
National Non Domestic Rates	system/follow up	15	In Progress	FFS/R27
Cash receipting and Income control	system/follow up	15	In Progress	FFS
Provision for 'top up' testing	systems	30	Completed	FFS
ICT				
ICT Procurement	ICT	10	Completed	AC/R2
Access controls	ICT	10	Completed	FFS
Disaster recovery/business continuity	ICT	10	Completed	R8
TOTAL		**230**		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	System	20		R27
Countrycare	System	10	Completed	R
TOTAL		**30**		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	system	20	Completed	R20
Car Parking Contract	system	10	In Progress	R27
North Weald airfield	establishment	15		R27
TOTAL		**45**		
HOUSING				
Housing Rent Collection and Arrears	system/follow up	20	In Progress	FFS/R27
Right to Buy	system	10		AC
Housing Repairs Service	system	20	In Progress	
Housing Contracts	system	20	Completed	R2
Private Sector Housing - Grants	system	15	Completed	
Norway House	Establishment	10		??
TOTAL		**95**		
CORPORATE SUPPORT SERVICES				
Human Resources				

Payroll	System/follow up	20		FFS
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
Travelling & Subsistence Claims	verification	10		R
Car Mileage claims	verification	10	In Progress	R
Estates/Facilities Management/Other				
Commercial Property portfolio	Follow up	5	Completed	R9
Reprographics	System	10		??
Fleet Operations income	system	5	Completed	R27
Facilities Management Contracts	system	10	Carried Fwd.	R2
Legal				
Debt recovery	Follow up	10		R27
TOTAL		**100**		
PERFORMANCE IMPROVEMENT				
Key and Local Performance Indicators	verification	15	Completed	R
Business Plans	verification	10	Completed	R
Equality Analysis	verification	10		R
FRAUD PREVENTION & DETECTION				
Contracts	fraud }	15	Completed	AC/R20
Procurement	fraud }	15	Completed	AC/R2
Council Tax Discounts	fraud	15	Completed	AC/R23
National Fraud Initiative (NFI)	fraud	20	In Progress	R23
Data matching and analysis (IDEA software)	fraud	25	In Progress	AC
CORPORATE				
Corporate Procurement	system/follow up	15	Carried Fwd.	AC/R2
Gifts and Hospitality (Members & Officers)	system/follow up	10	Completed	R
Corporate Asset Register	system	5	Completed	FFS
Priority 1 Audit recommendations	follow up	10	In Progress	R23
Governance Statement	management review	5	Completed	AC/R
TOTAL		**170**		
TOTAL DAYS ALLOCATED		**670**		
Contingency/Minor investigations		**40**		R23
Corporate/Service Advice		**65**		
TOTAL		**775**		

Key	**Risk Identifier**
AC	Audit Commission
FFS	Fundamental Finance System
R no.	Risk No. in Corporate Register
R	Reputation of Council