Report to the Audit and Governance Committee

Report reference: *AGC-008-2014/15*
Date of meeting: *25 September 2014*

Epping Forest District Council

Portfolio:	**Governance and Development Management**
Subject:	**Internal Audit Monitoring Report April - June 2014**
Responsible Officer:	**Brian Bassington (01992 564446).**
Democratic Services Officer:	**Gary Woodhall (01992 564470).**

Recommendations/Decisions Required:

1.   To note the following issues arising from the Internal Audit Team's first quarter monitoring report for 2014/15:

(a)   the reports issued between April and June 2014 and significant findings (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 2014/15 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 2014, and details the overall performance to date against the Audit Plan for 2014/15. The report also contains a status report on previous priority 1 audit recommendations which continues to be monitored by the Corporate Governance Group.

Reasons for Proposed Decision:

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

Other Options for Action:

No other options.

Report:

Work Carried Out in the Period

1.   The audit reports issued in the first quarter are listed in paragraph 3 below.

2.   Audits completed in the first quarter have included audits in progress at the end of the last financial year, the detailed findings of which are at Appendix 1. At the end of the quarter, a further five audits were in progress or at the draft report stage.

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

   (a)   Full Assurance:
   - None;

   (b))   Substantial Assurance:
   - Creditors;
   - Housing Benefits;
   - Overtime and Committee Allowances;
   - Travelling and Subsistence Claims;
   - Fleet Operations Income;
   - Management of Sickness Absence;
   - Norway House; and
   - Right to Buy;

   (c))   Limited Assurance:
   - Housing Rent Collection and Arrears;

   (d))   No Assurance:
   - None; and

   (e))   At Draft Report Stage:
   - Business Plans;
   - Commercial Property Management;
   - Facilities Management;
   - Reprographics; and
   - Planning Fees.

Limited Assurance Audit Reports

4.   During the quarter a report on Housing Rent Collection and Arrears was issued with a Limited assurance rating. This was due to the rental income reconciliation and council stock reconciliation having not been completed for 2013/14. Staff from the Communities and Resources Directorates have worked together to resolve this weakness which should result in a higher level of assurance at the time of the follow up audit. It should be noted that the council stock reconciliation had been completed by the time the final report was issued. Further work has been carried out on the rental income reconciliation, which was completed and up to date by 7 August 2014. This will now be carried out on a monthly basis.

Follow Up of Previous Priority 1 Recommendations

5.   Attached at Appendix 2 is a schedule of outstanding priority 1 recommendations to ensure follow up both by Internal Audit and Service Management. These recommendations are monitored on a monthly basis by the Corporate Governance Group.

Follow Up of Previous Limited Assurance Audits

6.   Attached at Appendix 3 is a schedule of previous limited assurance audits to ensure follow up both by Internal Audit and Service Management.

Audit Plan 2014/15 (Appendix 4)

7.   The status of the 2014/15 Audit Plan is set out at Appendix 4.

<u>Performance Management</u>

8.   The Internal Audit Team has local performance indicator targets to meet in 2014/15, as set out below:

	Actual 2011/12 For year	Actual 2012/13 For year	Actual 2013/14 For year	Target 2013/14 For year	Actual 2013/14 Quarter 1	Actual 2014/15 Quarter 1
% Planned audits completed	82%	85%	88%	90%	11%	17%
% chargeable "fee" staff time	71%	69%	74%	75%	75%	74%
Average cost per audit day	£213	£243	£225	£245	£219	£237
% User satisfaction	89%	N/A	N/A	90%	87%	Please see below

9…   The indicators are calculated as follows:

(a)   % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan. This indicator shows improvement over previous years due to the rescheduling of the fundamental financial systems during last year. This resulted in the need for top up testing being considerably reduced at the end of 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 taken from the budget monitoring reports, divided by the number of fee earning days extracted from the time recording system.

(d)   % User Satisfaction – Due to poor responses from management the user satisfaction process was discussed at the Audit and Governance Committee on 30 June 2014 and a new way forward agreed. As of 1 July 2014, the customer survey will be given to the relevant Assistant Director or Manager at the audit exit meeting for completion at the meeting. This should ensure both completion and an immediate response while the audit is fresh in the Manager's mind.

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.

SUMMARY OF AUDITS COMPLETED DURING QUARTER 1
April - June 2014

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Creditors	Resources Directorate	**Substantial Assurance** The systems and controls surrounding the ordering, receipting and payment of goods and services are operating effectively.	Officers should be reminded that orders are to be raised in advance and that goods/services should be receipted on Marketplace.
Housing Benefits	Resources Directorate	**Substantial Assurance** Audit review of Housing Benefit showed the systems and controls currently in place are adequate in ensuring the process runs well and data quality and accuracy is maintained.	The accuracy checks process has been identified as an area that has shown significant improvement. Yet with additional development of the process in regards the management control, there would be the basis for further assurance to be given.
Overtime and Committee Allowances	Resources Directorate	**Substantial Assurance** Overtime and committee allowances are claimed in accordance with the Staff Handbook.	Overtime and committee allowances claims are submitted in a timely manner and certified by an authorised signatory. The reason for overtime was included on all claim forms and attendance at Council meetings verified to the signing-in sheets for committee allowances. All claim forms are signed by the employee and checked by the Pay Section prior to processing.
Travelling and Subsistence Claims	Resources Directorate	**Substantial Assurance** Travel and subsistence payments are claimed in accordance with the Staff Handbook and subsistence payments policy.	Consideration should be given as to whether it would be more cost effective to provide relevant employees with a Council mobile phone rather than reimbursing the cost of the telephone line rental.

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Fleet Operations Income	Neighbourhoods Directorate	**Substantial Assurance** The systems and controls surrounding the recording, reconciliation and monitoring of fleet operations income are operating satisfactorily.	The debit card income should be reconciled on a daily basis to the booking-in sheets.
Management of Sickness Absence	Resources Directorate	**Substantial Assurance** The systems in place for managing sickness absence are operating effectively.	Sickness absence should be a standing item on the agenda of the meetings between Directors and their Assistant Directors. Human Resources should resume the monitoring of sickness absence as soon as possible to ensure appropriate action is being taken by the Directorates.
Norway House	Communities Directorate	**Substantial Assurance** The controls for the management of Norway House are in place and ensure financial control and abidance to the Financial Regulations.	Areas of financial management have been discussed to ensure best practice is attained and controls are strengthened. The implementation of the card payment system is an area audit will revisit to ensure robust controls surround the process.
Right to Buy	Communities Directorate	**Substantial Assurance** The systems and controls surrounding the Right to Buy process are operating effectively.	With applications on the increase and the risk of fraud and loss of public money regarded as high, the recommended improvements agreed with management will strengthen the controls surrounding the process.
Housing Rents	Communities Directorate	**Limited Assurance** The majority of controls surrounding the system for housing rent collection and arrears management are operating effectively. Unfortunately since the loss of a key member	Reconciliation is a key control in the income collection process which should be completed monthly to ensure records are correct and anomalies are identified. Communities Support (Incomes) and Accountancy have agreed to work

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
		of Communities Support staff, rental income reconciliations have not been completed. It is noted that efforts have been made to complete reconciliations.	together to put in place a new system of reconciliation that will give the correct level of assurance.

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	The induction process has been reviewed and a new approach which includes an e-learning module has been presented to Management Board on the 6th August for approval. The induction paperwork has been revised and the monitoring process reported as follows. "To ensure the induction process is carried out for all new staff HR will record returns of the paperwork and completion of e Learning. A reminder will be sent to managers who have not completed and a report will be sent to Directors monthly of outstanding items."	Actioned	
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.	Assistant Director (Asset Management & Economic Development)	31/3/14	Agreed. The data will be cleansed before being loaded onto the new system. Following the failure of the replacement system to meet the required specification, the market is being researched prior to a re-tendering exercise. The license for the original	Awaiting system acquisition process.	

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
				system has been extended for one year to maintain continuity of the database during the acquisition process.		
Housing Rents	Income reconciliations between Housing (OHMs) and the general ledger should be completed monthly. Advice will be provided by Accountancy as required.	Communities Support Manager Assistant Director (Accountancy)	1/9/2014	Accountancy will provide assistance for approximately 3 months to enable Communities Support to complete the reconciliation.	Actioned	7/8/2014 The reconciliation is now in place and up to date and will be carried out on a monthly basis.
Housing Rents	Due to the increase in movements of Housing stock, (right to buy sales), stock reconciliations should be completed more regularly.	Communities Support Manager	1/9/2014	Communities Support and Accountancy will reconcile property information on a monthly basis.	Actioned	31/3/2014

Report Title	Directorate	Date Issued	Agreed Actions by priority	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
Car Parking Income	Environment and Street Scene	March 2014	P1. 0 P2. 1 P3. 0	P1. 0 P2. 1 P3. 0	Q3 2014/15	The pay and display off street car parking income is adequately monitored. However, the introduction of new parking meters will enable the pay and display income to be more effectively monitored. As little supporting documentation is received in relation to the Penalty Charge Notice (PCN) and Season Ticket income, it is not possible to verify this. This is in the process of being addressed by management. In the meantime however, the volume of PCNs is being monitored to ensure there are no significant fluctuations and the any issues identified are raised with NEPP. Additionally, some assurance should be provided as the car parking contract is subject to independent review by Colchester Borough Council Internal Audit Section.
Housing Rents	Communities Directorate		P1. 2 P2. 2 P3. 0	P1. 1 P2. 2 P3. 0	Q3 2014/15	This audit provides limited assurance due to the rental income reconciliation and council stock reconciliation having not been completed for 2013/14. Staff from the Communities and Resources Directorates are working together to resolve this weakness which should result in a higher level of assurance at the time of the follow up audit. It should be noted that the council stock reconciliation had been completed by the time the final report was issued.

AUDIT PLAN 2014/15

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

Audit area	Audit type	Days allocated	Completed	Risk Identifier
Resources				
Accountancy				
Bank Reconciliation	system/follow up	15		FFS
Sundry Debtors	system/follow up	15		FFS
Creditors	system/follow up	15		FFS
Treasury Management	system/follow up	10		FFS/R4
Budgetary Control (capital and revenue)	system/follow up	10		FFS
Risk Management and Insurance	system/follow up	10		FFS
Main Accounting and Financial Ledger	system/follow up	15		FFS
Provision for 'top up' testing	systems	30		FFS
Benefits				
Housing Benefits	system/follow up	15		FFS
Council Tax Reduction	system/follow up	15		FFS
Revenues				
Council Tax	system/follow up	20		FFS/R4/AC
Business Rates	system/follow up	20		FFS/R4
Cash receipting and Income control	system/follow up	15		FFS
Human Resources				
Payroll	System/follow up	20		FFS
Recruitment and Selection	verification	10		R
Management of Sickness absence	verification	10	Completed	R
Overtime and Committee Allowances	verification	10		R
Travelling & Subsistence Claims	verification	10		R
Car Mileage claims	verification	10		R
Reprographics	System	10	Completed	
ICT and Facilities Management				
ICT Procurement	ICT	10		AC/R6
Access controls	ICT	10		R6
Facilities Management Contracts	system	10	Completed	AC
TOTAL		**315**		
Governance				
Governance and Performance Mgmt.				
Key and Local Performance Indicators	verification	15	In Progress	R
Business Plans	verification	10	Completed	R
Equality Analysis	verification	10		R
Gifts and Hospitality (Members & Officers)	system/follow up	10		R
Legal				

Debt recovery	Follow up	10		R4
Development Management				
Planning Fees	System	20	Completed	R4
TOTAL		**75**		
Neighbourhoods				
Neighbourhood Services				
North Weald airfield	establishment	15	In Progress	R4
Technical Services				
Waste Management and Recycling	system	20		R
Car Parking Contract	system	10	In Progress	R4
Fleet Operations income	system	5	Completed	R4
Forward Planning & Economic Devel.				
Commercial Property portfolio	Follow up	10	Completed	R2
TOTAL		**60**		
Communities				
Housing Property				
Housing Repairs Service	system	20		R
Council Housebuilding Programme	system	15		AC
Housing Contracts	follow up	5		AC
Housing Operations				
Housing Rent Collection and Arrears	system/follow up	20		FFS/R4
Norway House/Rental Assistance Loans	Estab/system	10	Completed	R4
Private Sector Housing & Comm. Support				
Right to Buy	system	10	Completed	AC
Private Sector Housing - Grants	system	15		AC
TOTAL		**95**		
FRAUD PREVENTION & DETECTION				
Contracts	fraud	15	In Progress	AC
Procurement	fraud	15		AC
Council Tax Discounts	fraud	15		AC
National Fraud Initiative (NFI)	fraud	20		AC
Data matching and analysis (IDEA software)	fraud	25		AC
TOTAL		**90**		
CORPORATE				
Corporate Procurement	system/follow up	15		AC
Corporate Asset Register	system	5		FFS
Priority 1 Audit recommendations	follow up	10		R
Governance Statement	management review	5	Completed	R
TOTAL		**35**		

TOTAL DAYS ALLOCATED		**670**		
Contingency/Minor investigations		**40**		
Corporate/Service Advice		**65**		
TOTAL		**775**		