

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: **AGC-004-2017/18**

Date of meeting: **26 June 2017**

Portfolio: Technology and Support Services

Subject: Annual Report of the Chief Internal Auditor

Responsible Officer: Sarah Marsh (01992 564446).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) To note the Annual Report of the Chief Internal Auditor for 2016/17 and the assurance level given;
- (2) To review the contents of this report and appendices as part of their review of the Annual Governance Statement; and
- (3) To agree that for the 12 months ended 31 March 2017, the Council had operated adequate and effective governance, risk management arrangements and control processes.

Executive Summary:

This report is presented in support of the Internal Audit opinion on the adequacy of Epping Forest District Council's (EFDC) internal control environment and provides a summary of the work undertaken by Internal Audit for 2016/17.

The Accounts and Audit Regulations 2015 include a requirement for the Authority to carry out an annual review of the effectiveness of its system of internal audit as part of the wider review of the effectiveness of the system of governance. This report supports such a review.

Reasons for Proposed Decision:

To support the Committee in its review of the Annual Governance Statement

Other Options for Action:

No other options.

Report:

Introduction

1. This document summarises the results of internal audit work during 2016/17 and, as required by the Accounts and Audit (England) Regulations 2015, gives an overall opinion of the Council's governance, risk management and control framework.

Overall Opinion

2. As the internal audit service provider to the Council, I am required as the Chief Internal Auditor to provide the Council and the Chief Executive with a statement on the adequacy and effectiveness of the organisation's risk management, control and governance processes.

3. In giving an opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the organisation is a reasonable assurance there are no major weaknesses in the Council's risk management, control and governance processes.

4. In assessing the level of assurance to be given, the following have been taken into account:

- all audits undertaken during the year;
- any follow-up action taken in respect of audits from previous periods;
- high priority recommendations not accepted by management or acted upon (there were none) and the consequent risks;
- the effects of any significant changes in the Council's objectives, activities or systems;
- matters arising from previous reports to the Council;
- any limitations which may have been placed on the scope of internal audit (there have not been any);
- the extent to which resources constraints may impinge on the Chief Internal Auditor's ability to meet the full audit needs of the Council;
- what proportion of the organisation's audit need has been covered to date; and
- the results of work performed by other assurance providers including the work of the financial statement auditors.

5. As Chief Internal Auditor I am satisfied that sufficient internal audit work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness (or inadequacy and ineffectiveness) of the Council's risk management, control and governance processes.

Based upon the results of work undertaken during the year it is the Chief Internal Auditor's overall opinion that the Council has adequate and effective governance, risk management arrangements and control processes.

Context

6. This report outlines the work undertaken by Internal Audit covering the period 1 April 2016 to 31 March 2017.

7. Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements i.e. the control environment. Internal Audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. On behalf of the Council, Internal Audit reviews, appraises and reports on the efficiency, effectiveness and economy of these arrangements.

8. Internal Audit is required by professional standards to deliver an annual internal audit

opinion and report to those charged with governance, timed to support the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

9. The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

10. The primary role of Internal Audit is to provide assurance to the Council (management, Directors and the Audit and Governance Committee) and ultimately the taxpayers that the Council maintains an effective control environment that enables it to manage its significant organisational risks and has appropriate governance arrangements to support this. Internal Audit helps the Council achieve its objectives and provide assurance that effective and efficient operations are maintained. The assurance work culminates in an annual opinion on the adequacy of the Council's control environment which feeds into the Annual Governance Statement.

Internal Audit Work during 2016/17

11. The 2016/17 Internal Audit Plan was presented to the Audit and Governance Committee in March 2016. The plan was prepared based on the risks associated with the Council's objectives in consultation with key officers and took into account:

- knowledge and experience accumulated in Internal Audit, including the results of previous reviews;
- a review of audit themes against the Corporate risk register and Council priorities;
- the work of other assurance providers both internally and externally; and
- the external environment including economic climate, government initiatives such as welfare reform and changes in funding.

12. The plan was designed to allow sufficient audit coverage to support the overall opinion for the Council. There have been some variations to the plan, which have been approved by the Audit and Governance Committee, and there has been sufficient internal audit coverage in order to give this opinion.

13. At the end of each assurance review a report is issued giving a formal audit assurance rating. This rating is based on an assessment of the key management arrangements and internal controls in place and measured using the following scale:

- 'Substantial' assurance – Overall, there is a sound system of control. Any weaknesses which put system/service objectives at risk will be minor and does not lead the Council to significant risk exposure.
- 'Limited' assurance – There are significant weaknesses in more than one key control area, which could put system/service objectives or the Council at risk.
- 'No' assurance – There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk.

Summary of Assurance Work

14. A total of 18 assurance reviews were completed and overall the audits are positive with them all given Substantial assurance except for one, being Limited:

- 17 Substantial assurance;
- 1 Limited assurance; and
- No report was given No assurance.

15. For the one report given Limited assurance this related to a specific area rather than representing a breakdown of controls across the Council.

16. A common theme coming out of Internal Audit work during 2016/17 is a need for the interested parties to be consulted at a much earlier stage such as Legal, Procurement and Accountancy. Although not a control weakness in itself, earlier engagement would ensure a more orderly process when letting contracts or delivering projects.

17. Appendix A sets out work carried out by the Internal Audit service during the year in narrative form and compares this to the original plan agreed by the Audit and Governance Committee March 2016. This summary includes individual audit reviews, consultancy and advice and other Internal Audit engagement activities with the Council.

18. It is important that the work of Internal Audit is aligned with the strategies, objectives, and risks of the organisation. This is set out in the Audit Strategy and Audit Plan which the Audit and Governance Committee receive each March. Appendix B lists the individual audit reports issued as part of the 2016/17 Plan. The bottom of the appendix seeks to align the work of Internal Audit for 2016/17 and against the Council's corporate risks. Overall there is good alignment but could be improved, which was identified in the November External Quality Assessment of Internal Audit. This will be kept under review during 2017/18.

Tracker process

19. Recommendations are categorised according to the risks they are intended to mitigate. Categorising recommendations also assists managers in prioritising improvement actions. Recommendation categories, in order of priority are high, medium and low depending on the level of risk involved.

20. The Audit and Governance Committee receives a report of all overdue recommendations plus any high risk recommendations from final reports issued, regardless whether they are overdue or not.

21. The process continues to work well with good commitment by managers to ensure audit recommendations are implemented or there are good business reasons why there has been a delay. There are no significant issues to report regarding the implementation of audit recommendations.

Other Sources of Assurance

22. The opinion given in this annual report does not rely solely on the formal audits undertaken by the section.

23. *Special investigations:* Internal Audit and the Corporate Fraud Team investigate any allegations of fraud and suspected irregularity although there are separate arrangements for reporting, investigating and dealing with benefits fraud. A record is maintained of all reported and alleged fraud and theft which forms the basis for an annual report on fraud which is presented to the Audit and Governance Committee. There were no significant (estimated at

more than £10,000) investigations into suspected internal fraud although an internal investigation was carried out by the Corporate Fraud Team which resulted in the dismissal of a staff member for gross misconduct.

24. *Advice:* Internal Audit is most effective when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems. This includes Internal Audit acting in an ex-officio role on key business groups which in 2016/17 included:

- The Corporate Governance Group
- Risk Management Group
- Project and Programme Project Group
- Corporate and Business Planning Project Group
- Customer Self-Service Kiosk Project Group
- Corporate Debt Working Party
- Personal Data Working Party
- Procurement Rules Working Party
- E-Invoicing Group

25. In addition, Internal Audit raises awareness of control issues throughout the Council particularly through the update of key governance documents and the co-ordination and analysis of service assurance statements which feeds into the Annual Governance Statement.

26. *Anti-Fraud and Corruption work:* The Corporate Fraud Team became formally operational on 1 April 2015 and the team reports directly to the Chief Internal Auditor. The team was created in 2015 in order to bring together the Council's investigative teams to create a uniform approach to anti-fraud activities. The Corporate Fraud Team is fully established and embedded within the Council.

27. The Council also participates in the National Fraud Initiative (NFI), which is a data matching exercise run every two years. The exercise seeks to identify fraud spanning public bodies and Internal Audit is the key point of contact and facilitates and supports the Council's involvement. Internal Audit working in tandem with the Corporate Fraud Team identified through NFI an employee who was undertaking outside employment during work time which led to them being dismissed for gross misconduct.

Effectiveness

28. This section of the report sets out information on the effectiveness of the Internal Audit service and compliance with the Public Sector Internal Audit Standards (PSIAS).

29. As part of the Public Sector Internal Audit Standards it is a requirement that internal audit functions are externally assessed every five years, with the first assessment having to be completed by the end of 2017/18.

30. In November 2016 an independent assessment was undertaken of the Internal Audit shared service for Epping Forest, Harlow and Broxbourne. The External Quality Assessment (EQA) (the independent assessment) concluded the Internal Audit shared service fully complies with the Public Sector Internal Audit Standards. The EQA outcome reported has been benchmarked against other provision in both the sector and the wider industry and showed that the Internal Audit team compares favourably with regard to its peers. In addition, the EQA noted that the introduction of the shared service has benefited the three Councils and receives positive feedback from both Audit Committee Chairs as well as Executive Management.

31. The EQA identified some minor areas for improvement mainly around the need to develop aspects of the audit process to improve focus on the significant risks facing each Council in the achievement of its objectives. The recommendations contained within the report were used to help inform the Internal Audit Quality Assurance and Improvement Programme (QAIP). The QAIP includes internal and external assessments of effectiveness, both on-going and periodic monitoring and areas for improvement identified in the EQA.

32. The recommendations contained within the EQA report were used to produce an Improvement Action Plan which, along with the full EQA report, was presented to the February 2017 Audit and Governance Committee. The Improvement Action Plan has been completed in full.

33. The regular progress reports presented to the Audit and Governance Committee provide Members with the opportunity to monitor Internal Audit's output and effectiveness. Feedback on the implementation of recommendations also provides evidence of the degree of influence Internal Audit has on changes to strengthen the control framework for the Council.

34. Performance indicators are in place to monitor service performance and reported at each Audit and Governance Committee with a summary for the year presented below:

Aspect of Service	Performance Indicator	Target	Actual Year End
Audit Plan	<ul style="list-style-type: none"> Achievement of the Annual Plan 	<ul style="list-style-type: none"> 95% 	<ul style="list-style-type: none"> 84%*
Internal Audit processes	<ul style="list-style-type: none"> Issue of draft report after closing meeting 	<ul style="list-style-type: none"> 10 working days 	<ul style="list-style-type: none"> Not met (average 16 working days)
	<ul style="list-style-type: none"> Issue of final report after agreement with client to draft 	<ul style="list-style-type: none"> 5 working days 	<ul style="list-style-type: none"> Met (4 working days)
Effective management engagement	<ul style="list-style-type: none"> Management responses within 10 working days of draft report 	<ul style="list-style-type: none"> 10 working days 	<ul style="list-style-type: none"> Not met but mainly reasons beyond IA control (average 21 working days)
	<ul style="list-style-type: none"> Implementation of agreed audit recommendations 	<ul style="list-style-type: none"> Within agreed timescales 	<ul style="list-style-type: none"> Largely met (as reported by tracker)
Compliance with professional standards	Public Sector Internal Audit Standards	100% compliant	100% compliant

* This figure is based on the approved deferral/cancellation of nine audits and is an improvement on the previous year (2015/16) where 79% of the Plan was achieved. An additional three assignments were added during 2016/17 at the request of management. Other audit work carried out includes participation on project and business groups, which is difficult to quantify in terms of audit plan coverage.

35. The reasons why some performance indicators are not being met will be explored at team meetings and actions will be developed to address these.

36. Internal Audit staff participate in Continuous Professional Development including keeping abreast of best professional practice. Members of the Internal Audit team participate in various networking groups including the Essex Audit and Counter Fraud Group, Midland Audit Group and the London Audit Group, where speakers on topical issues give presentations. There are also close working relationships with other councils.

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:

NB: There are papers referred to in the preparation of the report which are not attached as appendices but which are available for public or Councillor study.

Public Sector Internal Auditing Standards (PSIAS) 2017
Accounts and Audit Regulations (England) 2015

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 report assist managers to determine the adequacy and effectiveness of the arrangements in place in their services.

Equality Analysis:

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided at an Appendix to this report.