

Report to the Audit and Governance Committee



Report reference: **AGC-002-2018/19**
Date of meeting: **30 July 2018**

**Epping Forest
District Council**

Portfolio: Technology and Support Services

Subject: Annual Report of the Chief Internal Auditor

Responsible Officer: Sarah Marsh (01992 564446).

Democratic Services: Rebecca Perrin (01992 564532).

Recommendations/Decisions Required:

(1) The Committee is requested to note the following report for 2017/18 and the assurance level given;

- (a) Reviews the contents of this report and appendices as part of their review of the Annual Governance Statement; and
- (b) Agrees that for the 12 months ended 31 March 2018, the Council has 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 2017/18.

The Accounts and Audit Regulations 2015 include a requirement for the Council 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

This document summarises the results of internal audit work during 2017/18 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

The Chief Internal Auditor is required to provide the Council with a statement on the adequacy and effectiveness of the organisation's risk management, control and governance processes.

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.

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 Audit and Governance Committee;
- Any limitations which may have been placed on the scope of internal audit (there have not been any);
- Whether there have been any resources constraints impinged on the Chief Internal Auditor's ability to meet the full audit needs of the Council (there have been none); and
- The results of work performed by other assurance providers including the work of the financial statement auditors.

The Chief Internal Auditor is satisfied that sufficient internal audit work has been undertaken to allow them 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

This report outlines the work undertaken by Internal Audit covering the period 1 April 2017 to 31 March 2018.

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.

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.

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.

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 2017/18

The 2017/18 Internal Audit Plan was presented to the Audit and Governance Committee in March 2017. 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
- The external environment including economic climate, government initiatives such as welfare reform and changes in funding

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.

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.
- 'Moderate' assurance – Basically sound control, with areas of weakness, which put system/service objectives at risk. (Any high priority recommendations will prevent this level of assessment).
- '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

A total of 19 assurance reviews were completed and overall the audits are positive with the majority being given Substantial assurance. There were no Limited or No assurance reports. For the reports given Moderate assurance these relate to a specific area rather than represent a breakdown of controls across the Council. The Moderate assurance rating was

re-instated for the 2017/18 Audit Plan.

Assurance rating	2017/18	2016/17
Substantial	13	17
Moderate	6	n/a
Limited	0	1
No	0	0
Total	19	18

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 2017. This summary includes individual audit reviews, consultancy and advice and other Internal Audit engagement activities with the Council.

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 2017/18 Plan.

Tracker process

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.

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.

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

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

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 following the Chief Internal Auditor receiving a Whistleblowing allegation.

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 represented on key business groups which in 2017/18 included:

- The Corporate Governance Group
- Risk Management Group

- General Data Protection Regulations Working Group
- Project and Programme Project Group
- Corporate and Business Planning Project Group
- Corporate Debt Working Party
- Personal Data Working Party
- E-Invoicing Group

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.

Anti-Fraud and Corruption work: The Corporate Fraud Team reports directly to the Chief Internal Auditor and ensures a corporate approach to anti-fraud activities as well as ensuring synergies with the Internal Audit team. For example, the Council 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 works in tandem with the Corporate Fraud Team to look into possible internal (Officer fraud).

Effectiveness

In line with good practice, the Internal Audit service should on an annual basis ensure it is compliant with the Public Sector Internal Audit Standards (PSIAS), which were last updated in 2017, notifying the Audit and Standards Committee of any areas of non-compliance. The main change to the PSIAS in April 2017 was guidance on the Chief Internal Auditor's role beyond Internal Auditing. This is because Chief Internal Auditor's may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities.

In November 2016 the service was confirmed as being fully compliant with the PSIAS by an external assessor. This remains to be the case as there have been no significant changes in the way the Internal Audit service is delivered or operates, and the Chief Internal Auditor has not taken on any additional responsibilities.

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.

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	2017/18 Year End outcome	2016/17 Year End outcome
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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"> • 87%* 	<ul style="list-style-type: none"> • 84%
Internal Audit processes	<ul style="list-style-type: none"> • Issue of draft report after closing meeting • Issue of final report after agreement with client to draft 	<ul style="list-style-type: none"> • 10 working days • 5 working days 	<ul style="list-style-type: none"> • 5 days • 3 days 	<ul style="list-style-type: none"> • 16 days • 4 days
Effective management engagement	<ul style="list-style-type: none"> • Management responses within 10 working days of draft report • Implementation of agreed audit recommendations 	<ul style="list-style-type: none"> • 10 working days • Within agreed timescales 	<ul style="list-style-type: none"> • 10 days • Largely met (as reported by tracker) 	<ul style="list-style-type: none"> • 21 days • Largely met (as reported by tracker)

* This figure is based on the amended plan as approved by the Audit and Governance Committee. Other audit work carried out includes participation on project and business groups, which is difficult to quantify in terms of audit plan coverage.

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 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 Appendix C to the report.