

Report to the Audit and Governance Committee



Report reference: AGC-014-2016/17
Date of meeting: 28 November 2016

**Epping Forest
District Council**

Portfolio: Governance and Development Management
Subject: Internal Audit Monitoring Report - September to November 2016
Responsible Officer: Sarah Marsh (01992 564446).
Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) That the Committee reviews the outcomes of the work of the Internal Audit service and the Corporate Fraud Team and identifies any issues for further consideration.

Executive Summary:

This report provides a summary of the work undertaken by Internal Audit between September and November 2016, progress against the 2016/17 Internal Audit plan and a summary of the work undertaken by the Corporate Fraud Team.

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:

2016/17 Internal Audit Plan

1. Work on the 2016/17 Audit Plan is progressing well as detailed in Appendix 1. Internal Audit staff are working across all three Councils in the partnership, thereby sharing best practice and expertise, and increasing the resilience of the team.

Internal Audit reports

2. The following four reports have been issued since the Committee received its last update in September 2016:

Substantial assurance:

- **Corporate Procurement** – Overall, the audit found that the Council's Procurement Rules are complied with. Goods and services procured are used for business purposes only, are appropriately authorised with no evidence of fraudulent activity. An improvement to the controls over credit card expenditure was implemented during the

audit, with the Procurement Manager now monitoring all credit card payments. The audit also found a high number of low value (under £10) invoices had been paid, which does not represent value for money. This issue is being addressed through the Procurement Steering Group.

- **Cash and Banking** – The audit found that the cash handling and banking arrangements at the Authority’s satellite offices at Hemnall Street Offices, Debden Broadway Housing Office and Oakwood Hill Depot are well managed and there are robust controls in place to protect cash received. Cash is accurately recorded, banked and reconciled, and any differences in cash income are recorded and promptly investigated. The Authority encourages customers to pay by methods other than cash in order to reduce the inherent risks associated with cash. Where possible, there needs to be a particular emphasis on those payments taken for off-site activities in order to avoid the need for cash payments on the day. A minor weakness relating to the key access at Hemnall Street offices was addressed during the audit.
- **Off-Street Car Parking Income** – There are robust controls surrounding the management of off-street car park income. The Authority receives all the off-street car park income collected on its behalf by the North Essex Parking Partnership (NEPP) and the Partnership’s cash collection contractor, G4S. The new ticket machines, installed during 2015, enable independent verification of the pay and display income, and data is supplied by NEPP in order that Penalty Charge Notice and season ticket income can be checked. Minor accounting issues were noted as income should be reconciled to the general ledger to ensure differences are identified and resolved. Reconciliations of the credit card payments, which are currently being phased in at the Council’s car parks, need to be carried out to ensure all income is received. A process to achieve this is being established.

Internal Audit Memorandum (no assurance level awarded):

- **Human Resources Sickness Absence Performance Indicator** – This exercise examined the corporate performance indicator regarding staff sickness absence, which was an additional piece of audit work requested by management. The review found that that performance data should be subject to more rigorous independent review locally before it is submitted to the Performance Improvement Unit for quality assurance. This requires better understanding of the calculation process from the reviewer. Measures which could assist the reviewer include documentation of local procedures and simplification of the spreadsheet used.

Recommendation Tracker

3. Members are reminded that the new audit recommendation priority ratings approved in March 2016 are being used for all reports from 2016/17. The new priority ratings are set out in table 1 below:

Table 1. New audit recommendation priority ratings

Recommendation priority ratings from 2016/17	Recommendation priority ratings pre 2016/17
High	1
Medium	2
Low	3

4. The Audit and Governance Committee will continue to receive details of all overdue recommendations, plus any high priority recommendations from final reports regardless of

whether they are overdue or not.

5. The current tracker (Appendix 2) contains five medium priority recommendations and three low priority recommendations which have passed their due dates. Regular monitoring of these recommendations demonstrates that, although they have not been completed by the original implementation dates, progress continues to be made on all of these.

6. The high priority recommendation (which is not overdue) relates to the development and implementation of an action plan to address health and safety issues identified at Townmead Depot as reported at the September meeting. An update on the progress of the recommendations following the audit of Health and Safety at Townmead Depot is given below.

Table 2. Summary of tracker as at 15 November 2016

Recommendation type	Number (as at November 2016)
High (Priority 1) not passed its due date	1
High (Priority 1) passed its due date	0
Medium (Priority 2) passed its due date	5
Low (Priority 3) passed its due date	3

Update on the issues identified following Health and Safety at Townmead Depot audit

7. At its September meeting, the Audit and Governance Committee received a summary of the findings from an audit of Health and Safety at Townmead Depot. The audit was given limited assurance based on the identification of a number of significant health and safety issues. The Committee requested an update on the progress made in addressing these issues. The following action has been taken:

- A site inspection at Townmead Depot was carried out on 1 October 2016. This was attended by the Safety Officer, Countrycare Manager and representatives from Facilities Management, in addition to Officers from the Neighbourhoods directorate. From this meeting an action plan was drawn up to of key actions required (both short and longer term). Further site visits have been arranged with the Council's Safety Officer in attendance.
- Since our audit the following actions have been taken:
 - New CCTV has been installed and minor repair works undertaken.
 - Regular sweeping of the site now takes place and items previously dumped on site have been removed.
 - The compound has been made more secure and ownership of the access gates established with Waltham Abbey Town Council.
 - All users/occupiers at the depot have been identified and are being liaised with on Health and Safety matters.
 - Regular site inspections and use of a checklist has been introduced.
 - The energy provider at the depot has been informed of the unsafe state of the electrical substation.
- Cabinet at their 3 November 2016 meeting approved the allocation of £75K for security and safety works at Townmead in 2017/18. Proposed works include new gates, refurbishment of the toilet facilities and improvement of the boundary fencing while a longer term solution for the depot is considered.

Other Internal Audit Activities

8. Internal Audit is represented on a number of business groups and project teams in order to provide advice and guidance. Project teams include:

- **Programme and Project Management** – Internal Audit has attended the monthly project team meetings and the different system demonstrations to advise in the development of appropriate Council-wide project management processes. A number of audits highlighted the need for a consistent methodology to be applied across the Authority, and project management has been identified as an improvement area in the Annual Governance Statement.
- **Corporate and Business Planning** – Internal Audit has attended the project meetings to advise on business planning processes. The Chief Internal Auditor has shared ideas and good practice from the other authorities in the Internal Audit partnership.
- **Electronic invoicing** – Internal Audit has advised on the controls around the implementation of electronic invoicing and the impact on the purchase ordering and accounting systems. Further advice has been given on appropriate methods for rolling out electronic invoicing across the Authority.
- **Customer Self Service Kiosks** – Advice has been provided in relation to cash receipting and income control processes in addition to the impact on petty cash procedures.
- **Information Management** – There is a need for the Authority to introduce a Council-wide Information Asset Register ahead of the EU General Data Protection Regulations which are due to come into force in 2018. Internal Audit is assisting in the design and implementation of the Register and advising on policies and procedures relating to information management.

National Fraud Initiative

9. The National Fraud Initiative (NFI) matches electronic data within and between public and private sector bodies to prevent and detect fraud. These bodies include police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies. Internal Audit continues to co-ordinate the extraction and uploading of the Council's data in relation to NFI, in addition to reviewing and co-ordinating the action to be taken on data matches identified. The relevant 2016/17 data has been uploaded to the NFI website and data matches will be received in January 2017.

External Quality Assessment (EQA)

10. The 2016 Public Sector Internal Audit Standards (PSIAS) make it a mandatory requirement that an internal audit function is externally assessed at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. This assessment, known as an External Quality Assessment (EQA), must be completed by 2017/18. It has been decided to bring this forward so that it can help shape the future of the shared internal audit service. An external assessment, covering all three Councils managed by the Chief Internal Auditor, is, therefore, taking place during November 2016 and is being carried out by Gateway Assure Limited. The rationale and approach to the EQA has been agreed with the Chairman of the Audit and Governance Committee and the results of the EQA will be reported to a future meeting of the Audit and Governance Committee. The annual review of the Internal Audit Charter, due to be considered at this meeting, has been deferred pending the outcome of the EQA.

Corporate Fraud Team

11. Since the last update, a further four Right to Buy applications have been stopped or withdrawn following Corporate Fraud Team intervention. The total discount saved as a result of this is approximately £311,600 and the value of retained rent revenue streams is around £183,000. In addition, another property has been recovered as a result of fraud intervention, resulting in a saving of approximately £18,000.

12. A formal caution has been administered to an EFDC tenant for making a false representation on a Right to Buy application, and the Team stopped a housing application due to the discovery of false/misleading information.

13. The Corporate Fraud Team is currently engaged in a number of criminal investigations including active money laundering investigations. Three criminal prosecutions are being prepared for court actions, each involving Proceeds of Crime Act (POCA) proceedings, currently estimated to be around £287,000 if successful.

14. The newly appointed investigator who took up post at the beginning of September is fully operational with their own caseload, and another team member, who is already a qualified auditor, commenced the fraud accreditation training programme at the end of October.

15. The Corporate Fraud Team has recently completed, on a fee income basis, a Standards Investigation.

16. Discussions are underway with another Essex Local Authority with regards to forming a joint working relationship for anti-fraud work and sharing best practice.

Review of significant issues identified in the 2015/16 Annual Governance Statement

17. In June 2016, the Audit and Governance Committee approved the Annual Governance Statement (AGS) which accompanies the Council's Statement of Accounts. The AGS outlines the proposed actions to be taken to deal with significant governance issues identified. The Corporate Governance Group monitors the actions set out in the AGS on a regular basis. The progress made to date on addressing the issues identified for improvement during 2016/17 is shown in table 3.

Table 3. Areas for improvement or monitoring during 2016/17

No.	Issue	Management response	Progress at October 2016
1	<p>Procurement Rules A common theme coming out of 2014/15 internal audit reviews was non-compliance with Contract Standing Orders as these had developed over time and were difficult to follow.</p> <p>On 26 April 2016 Council approved the new Procurement Rules, which replaced the Council's previous Contract Standing Orders. These provide a more flexible approach and are more responsive to the</p>	Staff are currently being trained on the Council's new Procurement Rules and mechanisms are being developed to ensure compliance with these.	Training sessions on the Council's new Procurement Rules have been carried out. The Procurement Rules and supporting guidance have been published on the intranet.

	current and future procurement needs of the Council.		
2	<p>Corporate Policies</p> <p>A need to raise awareness of, and communicate changes to, corporate policies e.g. Whistleblowing Policy and Officer Code of Conduct was a common theme coming out of this years' Service Assurance Statements.</p>	<p>A review of the Council's anti-fraud and corruption framework will be spearheaded by the Corporate Fraud Team this year and will include a review of the Council's Whistleblowing Policy and Officer Code of Conduct; the results of which will be promulgated to staff.</p>	<p>The Corporate Fraud Team is in the process of reviewing and updating anti-fraud policies.</p>
3	<p>Project Management</p> <p>Service Assurance Statements also identified a need to develop project management processes and provide training in this area.</p>	<p>A Project and Programme Management project team has been set up, sponsored by the Chief Executive, and is meeting regularly to address this issue.</p>	<p>The Programme and Project Management project group continues to meet monthly and will shortly be prototyping a potential project management system.</p>

Resource Implications:

Within the report.

Legal and Governance Implications:

None.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

2016/17 Audit and Resource Plan.

Risk Management:

Failure to achieve the audit plan and poor follow up of audit recommendations may lead to a lack of assurance that internal controls are effective and risks properly managed, which ultimately feeds into the Annual Governance Statement.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

Date/Name	Summary of equality analysis
28/11/16 Chief Internal Auditor	The report is a summary of the work carried out by Internal Audit and the Corporate Fraud Team and has no equality implications.