

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: C-017-2016/17
Date of meeting: 6 February 2017

Portfolio: Governance and Development Management

Subject: Internal Audit Monitoring Report - November 2016 to February 2017.

Responsible Officer: Sarah Marsh (01992 564446).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) That the Committee agrees the suggestion to drop or defer a number of audits;**
- (2) That the Committee approves that no changes to the current Internal Audit Charter are required; and**
- (3) That the Committee approves a skills and knowledge analysis of its members be undertaken and to consider the outcome of the results at its next meeting.**

Executive Summary:

This report updates members on the work completed by the Internal Audit service and Corporate Fraud Team since the November 2016 Audit and Governance Committee, reviews the Internal Audit Charter and proposes a method for undertaking a Committee skills and knowledge analysis. The report also gives an update of progress against the 2015/16 Annual Governance Statement action plan.

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 has continued on the 2016/17 Audit Plan as detailed in Appendix 1. In order to deliver this year's plan within the resources available, the Audit and Governance Committee is requested to approve the deferral of the audits detailed below. Whether they will be included in next year's work plan will form part of the audit planning process for 2017/18 due to be reported to the March 2017 meeting of the Committee.

- Asset Management Strategy – Review of the Council's asset management

strategy has been stalled due a number of reasons including concentrating resources on the Local Plan, staff absences and restructuring within Forward Planning and Economic Development.

- Energy Management – this is a low risk area and Internal Audit has no particular internal control concerns. In addition, the Council continues to be proactive in this area including review of tariffs and undertaking energy saving initiatives such as solar panels which are producing savings.
- Equality and Diversity – The Council's approach to equality impact assessments is changing from January 2017 onwards, therefore, it is too soon to look at the process. Additional assurances are obtained through the reporting of the four equality objectives 2016-2019 to the Governance Select Committee.
- IT Helpdesk – it is too early to audit as waiting for the new system to settle in (House on the Hill), which was rolled out in September 2016. Early indications are that the system is working as expected.
- Anti-Social Behaviour (ASB) – this audit is to ensure there was a joined up approach to ASB across the Council (not just for our housing tenants); and not because there were any internal control concerns. On this basis this audit could be deferred.
- Mutual Exchanges – there has been proactive work in this area by Housing Options working in tandem with the Corporate Fraud Team to reduce the risk of customer fraud.
- Performance Management (Neighbourhoods) – this area has been covered in part through the waste management and car parking audits.

2. It is important that sufficient audit work is undertaken in order that the Chief Internal Auditor can give their annual opinion. It is expected that, despite the need to defer/slip some audits, there will still be sufficient coverage through the remaining audits, and Internal Audit's proactive work, to enable the opinion to be provided for 2016/17. This will be kept under constant review in conjunction with the Corporate Governance Group.

3. Audit staff are working across all three Councils in the partnership, thereby sharing best practice and expertise, and increasing the resilience of the team. This should ensure the work for the remainder of this year's Audit Plan will be completed in time for year-end reporting to the July Audit and Governance Committee.

Internal Audit Reports

4. The following three reports (all awarded substantial assurance) have been issued since the Committee received its last update in November 2016:

- **Treasury Management** – This audit sought to add value by looking in more depth at strategic, reporting and scrutiny aspects of treasury management, in addition to operational key controls, and to compare these with Broxbourne and Harlow Councils in order to identify and share good practice. It was found that strong operational controls are in place to ensure that the Council's assets are protected, while providing adequate liquidity and yield to support the Council's activities. Comprehensive monitoring and reporting ensures that the Council's treasury management strategy is adhered to. There is also robust independent

scrutiny of treasury management strategy and performance which fully meets the requirements of the CIPFA Code. The audit identified the following areas of good practice at EFDC, which were shared with other Councils:

- clear definition and exercise of the scrutiny function, including co-opting members with appropriate financial expertise; and
 - dedicated covering reports for the Audit and Governance Committee which enhance scrutiny by encouraging members to explicitly consider whether the treasury management strategy addresses the key risks to the Council.
- **Housing Health and Safety – Gas Safety** – The main focus of this audit was to review the processes in place for monitoring annual gas safety checks, including the systems around the identification of overdue checks and checks for new tenancies. The audit found that there are robust controls in place which ensure that the Council's housing stock, homeless hostels and sheltered accommodation are being gas safety checked annually in line with Gas Safety (Installation and Use) Regulations 1998. The audit identified that there is comprehensive monitoring and reporting along with frequent contact with the Contractors which ensures that the Council's Gas Safety Policy is adhered to.
 - **Waste Management** – This audit focussed on the contract management and performance monitoring processes in relation to the waste management contract. It included a review of the role and responsibilities of the Council and the contractor, and arrangements for the supply and delivery of waste containers. The audit did not examine the systems relating to recycling. Overall, the waste management contract with Biffa is well managed. There are robust processes for managing the delivery of the contract and monitoring contractor performance. The audit has highlighted a need for procedures to be documented for business continuity purposes, and risk management processes need to be formalised to ensure there is visibility that risks regarding the contract have been appropriately identified and managed.

Recommendation Tracker

5. 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

6. 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.

7. The current tracker (Appendix 2) contains four medium priority recommendations and one low priority recommendation 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.

8. The high priority recommendation relating to the development and implementation of an action plan to address health and safety issues identified at Townmead Depot, which was previously reported to the committee, has now been completed. Further work has been carried out as detailed in the tracker in Appendix 2.

Table 2. Summary of tracker as at 25 January 2017

Recommendation type	Number (as at January 2017)
High (Priority 1) not passed its due date	0
High (Priority 1) passed its due date	0
Medium (Priority 2) passed its due date	4
Low (Priority 3) passed its due date	1

Other Internal Audit Activities

9. 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 provide advice on business planning processes. The Chief Internal Auditor has shared ideas and good practice from the other authorities in the Internal Audit partnership which has led to streamlining processes.
- **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.
- **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. This work replaces the proposed audit on data retention and disposals.

10. Internal Audit has been engaged on a fee basis to review a Parish Council's financial records and help them assess any control weaknesses within current systems.

National Fraud Initiative

11. 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 late January/ February 2017.

12. Internal Audit and the Corporate Fraud Team work together to assess the nature of the data matches and to prioritise and further investigate any matches that may warrant it. Priority is given to areas of potential fraud that may have a high direct impact on the Council (financial, reputational etc.) including any data matches involving Council staff and Members. A number of successful investigations have been undertaken following data matches obtained from the NFI, including a recent issue involving an EFDC employee who was identified as having outside employment. This investigation highlighted a number of anomalies (such as incorrect timekeeping and abuse of the Council's email system) which resulted in disciplinary action being taken and the employee being dismissed for gross misconduct.

Internal Audit Shared Service

13. The Chief Internal Auditor continues to oversee the delivery of Internal Audit services for Epping Forest District Council as well as Broxbourne and Harlow Councils, with the cost of the post being shared equally.

14. A formal shared service between the three Councils, with Broxbourne being the host authority, is on target to commence 1 April 2017 following Cabinet approval in December 2016. The Council's internal audit team (one Senior Auditor and two Auditors) will transfer, under TUPE, to Broxbourne Council.

15. The shared service will comprise of a Head of Internal Audit, three Senior Auditors and three Auditors. A recruitment process is currently in progress as one of the Senior Auditors from Broxbourne has left.

External Quality Assessment (EQA) and Internal Audit Charter Review

16. Each year the Internal Audit Charter is reviewed to ensure it remains up to date and relevant. The Charter sets out the purpose, authority and responsibility of Internal Audit. This was last undertaken and presented to the Audit and Governance Committee in November 2015.

17. It was agreed at the November 2016 meeting to delay this year's annual review until the outcomes from the independent External Quality Assessment (EQA) was known. A paper on the EQA forms part of the agenda elsewhere and the EQA determined that the Internal Audit function was compliant with the Public Sector Internal Audit Standards. Part of the EQA process included a review of the current Internal Audit Charter (Appendix 3) and no deficiencies or enhancements required were noted by the assessor. On this basis no changes to the current Internal Audit Charter are required (except the date on the cover).

Corporate Fraud Team

18. Since the last update, a further six 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 £467,400 and the value of retained rent revenue streams is around £275,184. In addition, another four properties have been recovered as a result of fraud intervention, resulting in a saving of approximately £72,000.

19. The Corporate Fraud Team has stopped a housing application due to the discovery of false/misleading information.

20. The Team is currently engaged in a number of criminal investigations including active money laundering investigations. Three criminal prosecutions are being heard in January and

February 2017, each involving Proceeds of Crime Act (POCA) proceedings, currently estimated to be around £287,000 if successful.

21. The Corporate Fraud Team is conducting a money laundering case, involving planning fraud, on behalf of Broxbourne Borough Council.

22. The Team hosted their third Eastern Corporate Fraud Group (ECFG) on 26 January 2017. The aim of the group, which is open to corporate fraud investigators from all Eastern region councils, is to promote professional standards and share good practice.

Audit and Governance Committee Skills and Knowledge Analysis

21. There is a range of knowledge and experience that audit committee members can bring to the committee which will enable it to perform effectively. No one committee member would be expected to be expert in all areas, but there are core areas of knowledge that committee members will need to acquire through training or briefings.

22. At its November 2016 meeting the Audit and Governance Committee agreed it would be beneficial for the committee to evaluate its overall knowledge and skills, which in turn can be used to guide members on their training needs.

23. A suggested template to collate this information is attached as Appendix 4, which makes a distinction between core areas of knowledge that all committee members should seek to acquire and a range of specialisms that can add value to the committee. If approved the Chief Internal Auditor would circulate the checklist and collate responses with an anonymised summary presented at the 27 March 2017 Audit and Governance Committee meeting.

Review of Progress against the Significant Issues Identified in the 2015/16 Annual Governance Statement

24. 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 February 2017
1	<p>Procurement Rules</p> <p>A common theme coming out of 2014/15 internal audit reviews was non-compliance with Contract Standing Orders. 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</p>	<p>Members of staff are currently being trained on the Council's new Procurement Rules and mechanisms are being developed to ensure compliance with these.</p>	<p>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.</p> <p>Any significant control failings will be reported in the Chief Internal Auditor's annual report which</p>

	more flexible approach and are more responsive to the current and future procurement needs of the Council.		will be presented to the July 2017 Audit and Governance Committee.
2	Corporate Policies 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.	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.	The Corporate Fraud Team is in the process of reviewing and updating anti-fraud policies. These will be presented at March 2017 Audit and Governance Committee
3	Project Management Service Assurance Statements also identified a need to develop project management processes and provide training in this area.	A Project and Programme Management project team has been set up, sponsored by the Chief Executive, and is meeting regularly to address this issue.	The Programme and Project Management project group continues to meet monthly and is prototyping a potential project management system.

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.

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 5 to the report.