

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-023-2016/17

Date of meeting: 27 March 2017

Portfolio: Governance and Development Management

Subject: Internal Audit Monitoring Report - February to March 2017

Responsible Officer: Sarah Marsh (01992 564446).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) The Committee notes the progress being made against the 2016/17 Internal Audit Plan and by the Corporate Fraud Team; and**
- (2) The Committee agrees the suggestion to defer a small number of audits.**

Executive Summary:

This report updates members on the work completed by the Internal Audit service and Corporate Fraud Team since the February 2017 Audit and Governance Committee. 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. These audits are included in next year's work plan which is also reported elsewhere in the agenda:

- **Safeguarding – Scoping** for this audit has commenced but due to staffing constraints within Internal Audit fieldwork will not commence until early 2017/18. Early indications are there are a number actions already in place to reduce the risks associated with safeguarding and a self-assessment 'audit' has been completed during the year as part of the Essex Safeguarding Board.
- **Joint Working: Community Safety** – links with the safeguarding audit and the need to slip this to early 2017/18.

2. It is important that sufficient audit work is undertaken in order that the Chief Internal Auditor can give their annual opinion. 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.

Internal Audit reports

3. The following two reports (both awarded substantial assurance) have been issued since the Committee received its last update in February 2017:

- **Grants to Voluntary Organisations** – The audit focused on the processes around the management of grant aid funding for voluntary groups, and included a review of the performance monitoring arrangements for grants awarded. It was found there are robust controls in place which ensure that grant aid is only awarded to eligible organisations, applications are fully evaluated, appropriately approved and payments are only made following proof of expenditure. Monitoring visits are carried out to ensure grant aid conditions are adhered to. Higher level grants awarded to the Epping Forest Citizens Advice Bureau and Voluntary Action Epping Forest are properly approved and there are effective monitoring processes in place to ensure performance objectives are met.
- **IT Disaster Recovery** – This audit reviewed the key controls surrounding IT Disaster Recovery and, at a higher level, how the IT Disaster Recovery processes align and are integrated with the Council's business continuity arrangements. Overall a good level of control was found over the IT Disaster Recovery process. Business continuity and disaster recovery plans are in place with clear roles and responsibilities. System and data backups are regularly taken and a disk failover process is in place. Logs and alerts are routinely produced and examined. It was found that the business impact assessments, which inform the recovery priority setting, are in need of updating. It was also noted that post incident debrief sessions, from which valuable lessons could be learned, are not routinely held.

Recommendation Tracker

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 just one medium priority recommendation which has passed its due date (compared to four medium and one low priority recommendations in January 2017). Regular monitoring of recommendations demonstrates that, although not completed by the original implementation dates, progress continues to be made on agreed actions.

6. The recommendation concerning staff resilience in Grounds Maintenance has been completed. The detail is provided in the tracker for information.

Table 2. Summary of tracker as at 14 March 2017.

Recommendation type	Number (as at 14 March 2017)	Number (as at 25 January 2017)
High (Priority 1) not passed its due date	0	0
High (Priority 1) passed its due date	0	0
Medium (Priority 2) passed its due date	1	4
Low (Priority 3) passed its due date	0	1

Other Internal Audit Activities

7. A number of assignments in the 2016-17 Audit Plan are intended to provide advice and guidance on current issues to the Council throughout the year and also help to inform the Chief Internal Auditor's annual opinion. This includes Internal Audit representation on business groups and project teams. These assignments, which do not result in an audit report, are included below for Members' information:

- **Programme and Project Management** – 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. Internal Audit has attended the monthly project team meetings to advise in the development of appropriate Council-wide project management processes.
- **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 and the introduction of new service plan templates for 2017/18.
- **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.
- **Personal Data (Payroll/HR system)** – Internal Audit is involved in the project group reviewing the processes and forms associated with the new payroll/HR system, which is currently being implemented. Advice has been provided to ensure that appropriate controls are retained in the new processes.

8. Internal Audit has carried out an investigation in relation to procurement issues. This included a review of processes to identify control weaknesses and has made recommendations

to address the risks arising.

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 the matches have all recently been received.

10. 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.

Internal Audit Shared Service

11. 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.

12. The formal shared service between the three Councils, with Broxbourne being the host authority, is still on target to commence 1 April 2017; with the Council's internal audit team transferring under TUPE to Broxbourne Council on that date. To oversee the implementation and delivery of the Internal Audit function, a Shared Services Board has been created. An inaugural meeting of the Shared Service Board was held on 13 February 2017.

External Quality Assessment

13. The findings from the recent External Quality Assessment (EQA) were reported to the committee in February 2017. The overall conclusion of the report was that Internal Audit complies with the PSIAS and provides an effective and efficient service to each Council (Epping Forest, Harlow and Broxbourne).

14. There were some actions identified by the external assessor which, although they do not affect the overall level of compliance with the PSIAS, would enhance service provision by ensuring that Internal Audit continues to develop and demonstrate best practice. An improvement action plan has been developed to address the issues identified and is shown in Appendix 3.

Corporate Fraud Team

15. Since the last report, a further two Right To Buy's have been stopped. The total discount saved as a result of this is approximately £156,000 and the value of retained rent revenue streams is around £90,000. One of the properties has been recovered, following the Corporate Fraud Team discovering the applicant was not living in it as their main or principal home, resulting in a saving of approximately £18,000.

16. Three prosecutions are currently underway and all three individuals have entered not guilty pleas. The team is back in court with one of these cases when it is hoped a change of plea can be secured.

17. Work has commenced on this years "Know a cheat in your street" anti-fraud campaign.

New leaflets are going out with this year's Council Tax and Business Rates demands.

Audit and Governance Committee Skills and Knowledge Analysis

18. 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.

19. 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, and a checklist to collate this information was approved at the February 2017 meeting. The checklist has been circulated to all members of the Audit and Governance Committee. The results will be anonymised, collated and reported to the June 2017 Audit and Governance Committee.

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

20. 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 March 2017
1	Procurement Rules 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. 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 current and future procurement needs of the Council.	Members of 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. Any significant control failings will be reported in the Chief Internal Auditor's annual report which will be presented to the June 2017 Audit and Governance Committee.
2	Corporate Policies A need to raise	A review of the Council's anti-fraud and corruption	The Corporate Fraud Team is in the process of

	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.	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.	reviewing and updating anti-fraud policies. These will be presented at June 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.

Service Assurance Statements

21. Internal Audit is co-ordinating the process to ensure service assurance statements are completed by each Assistant Director and signed off by the Director. The results of these will be analysed by Internal Audit and the results will feed into the 2016/17 Annual Governance Statement which will be reported to this committee in June 2017.

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 4 to the report.