

# **Report to the Audit and Governance Committee**



**Epping Forest  
District Council**

**Report reference:**

**Date of meeting: 30 November  
2023**

**Portfolio: Leader of the Council**

**Subject: Internal Audit Monitoring Report November 2023**

**Responsible Officer: Sarah Marsh (01992 564446)**

**Democratic Services: Laura Kirman (01992 564243)**

## **Recommendations/Decisions Required:**

- (1) The Committee notes the summary of the work of Internal Audit for the period July to November 2023**
- (2) The Committee approves the Internal Audit Charter**

## **Executive Summary:**

This report updates Members on the work completed by Internal Audit since the July 2023 Audit and Governance Committee and provides the current position in relation to overdue recommendations.

The Internal Audit Charter is also presented for approval following its annual review.

## **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:**

### **2023/24 Internal Audit Plan**

1. Progress is being made on the 2023/24 Audit Plan as detailed in Appendix 1.
2. Three final reports have been issued since the Committee received its last update in July 2023.

**IT Disaster Recovery (substantial assurance)**

ICT has undertaken extensive work to document, test and improve IT Disaster Recovery arrangements. A third party has been contracted to provide a recovery data centre, and in the event of a disaster, Council users are automatically redirected to the backup facility.

An IT Disaster Recovery (DR) Plan is in place and DR arrangements were subject to annual testing in June 2023. The Plan provides detailed guidance on the process to failover from the live to the DR data centre. To protect Council data, a data replication system has been deployed with Council data backed up to a cloud-hosted environment. Offsite backups are kept in cloud storage with an approved third-party cloud service provider. Offsite backups are immutable and so are both encrypted and protected from accidental or malicious deletion or modification.

Audit testing verified that the data backup system had been deployed to run regular data backup routines with Council data stored in an offsite Cloud storage facility but disclosed that the backup retention period was only 30 days. Outside of this timescale, data stored on the backup system was overwritten through the next backup cycle. Consideration is being given by ICT to increasing the retention period.

The data replication system offers the functionality to scan for malware or ransomware during the backup process. Malware scanning is enabled during a restore.

### **Cash and Banking (substantial assurance)**

Overall, the Council has robust controls in place for handling cash income, although this could be improved by developing cash handling procedure notes to provide a document for staff to refer to.

Daily reconciliations are undertaken at all sites taking cash (Epping Forest Museum, Norway House and, previously Oakwood Hill) and cash is stored securely. Since the audit, Fleet Operations has gone cashless, removing the need for a second person to be present when cashing up. With regards to Fleet Operations, an additional member of staff is being trained to carry out administrative tasks to provide continuity in the event of staff absence.

Cash income is checked to the bank account daily by the Payments Solutions Team, and any discrepancies investigated promptly.

### **Safes (reasonable assurance)**

There is a good understanding by staff around the controls for the use of safes, however, practices across the Council vary and would benefit from a formal Council-wide process. Written procedures for the use of safes are being developed to provide a robust and consistent approach and for staff to refer to.

The safe at the Limes Centre was not recorded on the safes register held by the Insurance Officer; however, this safe is not currently being used to store cash or other valuables.

### **Recommendation Tracker**

3. The Audit and Governance Committee continues to receive details of all overdue recommendations, plus any high priority recommendations from final reports regardless of whether they are overdue or not.
4. The current overdue tracker is shown at Appendix 2 and contains eight medium and

three low priority recommendations which have passed their due date. There are two high priority recommendations which are not yet due for completion.

Table 1. Summary of tracker in November 2023

Recommendation type	Number (November 2023)	Number (June 2023)	Number (March 2023)	Number (February 2023)	Number (November 2022)	Number (September 2022)
High Priority not yet passed its due date	2	0	0	0	0	0
High Priority passed its due date	0	0	0	0	0	0
Medium Priority passed its due date	8	11	7	7	7	7
Low Priority passed its due date	3	1	1	1	0	1
<b>Total</b>	<b>13</b>	<b>12</b>	<b>8</b>	<b>8</b>	<b>7</b>	<b>8</b>

#### **Other Internal Audit activities**

5. Internal Audit has continued to provide advice and guidance in several business areas:

**Risk Management:** Internal Audit continues to assist with the roll out of the new corporate risk management framework. In addition to the quarterly review of the corporate risks by the Senior Leadership Team, an operational risk management group has been established (chaired by the Head of Internal Audit) to further embed risk management in the organisation. This group has met twice. The first meeting established the terms of reference for the group, introduced the new risk management tools and started looking at the interdependencies between service and corporate risks. The second meeting challenged climate risks at both the service and corporate level.

**Phishing Email – Attempted Bank Mandate Fraud:** Following an attempted bank mandate fraud, Internal Audit undertook a review of the processes for changing bank details and made recommendations to improve the control framework to prevent fraud.

**Out of Hours Service:** Internal Audit facilitated a workshop around the Council's Out of Hours service to ensure there is a joined-up approach across the Council and that the service dovetailed with insurance and business continuity arrangements.

#### **External Quality Assessment (EQA)**

6. In line with the Public Sector Internal Audit Standards (PSIAS) an external assessment of the Internal Audit function needs to be undertaken at least once every five years by a qualified independent assessor from outside the Council. St Albans City and District Council joined the shared service in November 2022 and their EQA

at that time was overdue.

7. Gard Consultancy Services (GCS), who undertook the November 2021 EQA of the Broxbourne, Harlow and Epping Forest shared service was appointed to undertake this EQA. The EQA was accomplished through a self-assessment with independent external validation and covered the four councils in the shared service. Fieldwork in spring 2023 included interviews with the Audit Committees Chairs of all four councils and with each authority's Section 151 Officer, as well as testing a sample of completed audits for St Albans.
8. The overall conclusion from the EQA (appendix 3) is that the Shared Internal Audit Service's self-assessment is accurate and as such fully conforms with the requirements of the Public Sector Internal Audit Standards and the CIPFA (Chartered Institute of Public Finance and Accountancy) Local Government Application Note. All recommendations from the November 2021 EQA had been completed and no further recommendations were made.

#### **Internal Audit Charter**

9. The Internal Audit Charter sets out the common practices of Internal Audit and requires an annual review in accordance with the Public Sector Internal Audit Standards (PSIAS). This was last undertaken in November 2022.
10. The Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committees Practical Guidance for Local Authorities and Police 2022 edition states that an Audit Committee should have a role in approving the internal audit charter. In addition, the Committee has a role in overseeing the independence, objectivity, performance, and professionalism of the Internal Audit function.
11. In the past each council in the Internal Audit shared service had their own Internal Audit Charter. To ensure consistency of service provision these have been combined into a single document (Appendix 4). This means the title of Chief Internal Auditor, as used at this Council, has been replaced with Head of Internal Audit.

#### **Progress against the 2022/23 Annual Governance Statement**

12. In July 2023, the Audit and Governance Committee noted 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 2023/24 is shown in the table below.

No.	Objective	Risk area/action plan for 2023/24
1	<p><b>Economic Issues</b></p> <p>At the time of preparing this (2022/23) AGS, economic volatility – both nationally and globally – continues, although there are some early signs of stability emerging with inflation beginning to settle down (CPI peaked at 11.1% in October 2022), with notable reductions in fuel and energy prices. Interest</p>	<p>The implications continue to be monitored by SLT and feature as key considerations in the reports presented to Cabinet and in the development of the MTFP (Medium-Term Financial Plan) for 2024/25 and future years.</p> <p>This includes the Section 151 Officer's quarterly Qualis Monitoring Report to Cabinet.</p> <p>Frontline services, especially Revenues and Benefits, continue to prioritise and resource the delivery of the various support packages</p>

	<p>rates though continue to rise as the Government strives to further dampen inflation. This is having a direct impact on both the Council and Qualis, threatening the viability of a range of capital schemes.</p> <p>The economic situation is also proving challenging for the local community and is increasing the demand for Council services in some areas (e.g. Housing Benefits) as well exerting pressure on core Council funding streams such as Council Tax and Business Rates.</p>	<p>offered by the Government in response to public need (e.g. through various Energy schemes and rebates).</p> <p>The Council has a Cost of Living page on its website, which includes useful websites, organisations and advice to help with rising costs.</p>
2	<p><b>Statement of Accounts</b></p> <p>The delays with the audit of the Accounts reported in the 2021/22 AGS have worsened (nationally) in 2022/23, with the Government now actively considering a range of concerns raised from within the Local Government sector. Locally, the Council has an increasingly resilient Finance function, but a shortfall in External Audit resources has prevented the final sign off of the draft 2020/21 Accounts and limited audit work has been undertaken on the draft 2021/22 Accounts. Concerns include potential accuracy of rolled forward balances in the 2022/23 Accounts.</p>	<p>The Council is continuing to work with its External Auditors to resolve the audit difficulties, and the Section 151 Officer is also accessing professional guidance and support available through professional networks, including the Essex Finance Officers Association (EFOA).</p> <p>The delay in auditing accounts is a national issue and governance guidance is expected before Christmas on how to address the significant backlog of local government audits.</p> <p>The Audit and Governance Committee is being kept informed on progress.</p>
3	<p><b>Financial Management Code</b></p> <p>The assessment has carried over from the 2021/22 AGS action plan, although further progress was made in addressing the underlying principles of the Code in 2022/23.</p>	<p>The Code assessment will now be undertaken in 2023/24 to ensure that the Council can demonstrate compliance with the Code. If there are any remaining deficiencies, an action plan will be developed to address these.</p>
4	<p><b>Income Recovery</b></p> <p>The Income Recovery functions require improvement, with the Council experiencing a range of interlinked financial pressures as a consequence of sub-optimal performance (leading to</p>	<p>Additional performance measures have been introduced in 2023/24 to monitor and capture the Council's progress in tackling a backlog in outstanding Sundry Debts more closely. Additional resources are also being engaged within the Revenues function.</p>

	increased revenue costs through additional bad debt provisions and lower returns from funding incentives such as the Essex “Council Tax Sharing Agreement” (CTSA). The Sundry Debtors function has a substantial backlog of outstanding cases (exacerbated by the recent installation of a new IT system) and the Council experienced higher Local Tax arrears than expected at the year end, due to a decline in both Council Tax and Business Rates collection performance in Quarter 4 of 2022/23.	Income collection and recovery systems (including performance), for both Local Tax and Sundry Debts, is being explored and benchmarked as part of the shared services partnership with Braintree District Council and Colchester City Council.
5	<b>Financial Regulations</b> The review has carried over from the 2021/22 AGS action plan, with the delay partly as a consequence of ongoing delays to the introduction of the new Management Structure.	The review will now be undertaken in 2023/24. The updated Financial Regulations will be systematically rolled out in a structured way to ensure that they are suitably disseminated and clearly embedded within frontline service areas.
<b><i>Common themes emerging from the 2022/23 Service Assurance Statements were:</i></b>		
6	<b>Risk Management</b> Further work is required to develop and embed risk management processes.	A revised risk management strategy and policy has been developed and is being presented to Cabinet in December 2023. Risk management features quarterly at SLT to review strategic risks. An operational risk management group meets quarterly. Service risk registers are currently being developed.
7	<b>Business Continuity</b> A Business Continuity project has been ongoing during 2022/23 which has included providing relevant training to services so that they can develop their business continuity plans.	Business continuity arrangements will be strengthened through the completion of all Business Continuity Plans (corporate and service level) and these will be tested during 2023/24.

**Legal and Governance Implications:**

None

**Safer, Cleaner and Greener Implications:**

None

**Consultation Undertaken:**

Corporate Governance Group

**Background Papers:**

2023/24 Audit Strategy and 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.