

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



**Epping Forest  
District Council**

**Report reference:** AGC-003-2016/17  
**Date of meeting:** 27 June 2016

**Portfolio:** Governance and Development Management

**Subject:** Annual Report of the Chief Internal Auditor

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

**Democratic Services:** Gary Woodhall (01992 564470).

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## **Recommendations/Decisions Required:**

- (1) That the Committee be requested to note the following report for 2015/16 and the assurance level given;
- (2) That the Committee considers the contents of this report and appendices as part of their review of the adequacy and effectiveness of internal control; and
- (3) That the Committee notes, for the 12 month period ended 31 March 2016, the Chief Internal Auditor confirms that the Council has an adequate and effective governance, risk management and control framework.

## **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 2015/16.

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

1. This document summarises the results of internal audit work during 2015/16 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

2. No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. The work of Internal Audit is only intended to give reasonable assurance on controls. In assessing the level of assurance to be given, the Chief Internal Auditor has taken into account:

- All reviews completed during the year
- Any follow up actions taken in respect of audits from previous periods
- Any fundamental recommendations not accepted by management (there were none) and the consequence of risk
- The effect of any significant changes in the Council's objectives, activities or systems
- Whether any limitations have been placed on the scope of Internal Audit (there have not been any)
- Whether there have been any resource constraints that may impinge on Internal Audit's ability to deliver the agreed Internal Audit Plan (there have been none)
- Matters arising from previous reports to the Audit and Governance Committee

**Based upon the results of work undertaken during the year it is the Chief Internal Auditor's overall opinion that the Council has an adequate and effective governance, risk management and control framework.**

#### Context

3. This report outlines the work undertaken by Internal Audit covering the period 1 April 2015 to 31 March 2016.

4. 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.

5. 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.

6. 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. 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 2015/16

7. The 2015/16 Internal Audit Plan was presented to the Audit and Governance Committee in March 2015. 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

8. 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.

9. 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:

- 'Full' assurance – There is a sound system of control designed to achieve system objectives, and the controls are being consistently applied.
- 'Substantial' assurance – There is a sound system of control designed to achieve system objectives, and the controls are generally being consistently applied. However, there are some minor weaknesses in control, and/or evidence of non-compliance, which are placing some system objectives at risk.
- 'Limited' assurance – There is a system of control in place designed to achieve system objectives. However, there are significant weaknesses in the application of control in a number of areas, and / or evidence of significant non-compliance, which are placing some system objectives at risk.
- 'No' assurance – The system of control is weak, and / or there is evidence of significant non-compliance, which exposes the system to the risk of significant error or unauthorised activity.

#### Summary of Assurance Work

10. A total of 32 assurance reviews were completed and overall the audits are positive with the majority being given Full or Substantial assurance:

- 2 Full assurance;
- 28 Substantial assurance;
- 2 Limited assurance; and
- No report was given No assurance.

11. For the two reports giving Limited assurance these tended to relate to a specific area rather than represent a breakdown of controls across the Council.

12. Appendix A sets out the audits undertaken during 2015/16, with their assurance rating, and includes a small number of audits carried over from the 2014/15 Audit Plan.

#### Tracker process

13. 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 one, two and three.

14. In 2015/16 a new process was introduced to track and report on progress of the management implementation of agreed recommendations, which is actively monitored by the Corporate Governance Group. The Audit and Governance Committee receives a report of all overdue recommendations plus any priority one recommendations from final reports issued, regardless whether they are overdue or not.

15. The new process is working well with greater 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

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

#### *Special investigations:*

17. 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 fraud, hence, an annual fraud report has not been presented to the Audit and Governance Committee; although an internal investigation was carried out by the Corporate Fraud Team which resulted in the dismissal of a staff member for gross misconduct.

#### *Advice:*

18. 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 acting in an ex-officio role on key business groups which in 2015/16 included:

- The Corporate Governance Group
- Risk Management Group
- Corporate Green Working Party
- Corporate Debt Working Party
- Personal Data Working Party
- Contract Standing Orders Working Party
- E-Invoicing Group

19. 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:*

20. The Corporate Fraud Team became formally operational on 1 April 2015 and the

team reports directly to the Chief Internal Auditor. The team was created in order to bring together the Council's investigative teams to create a uniform approach to anti-fraud activities and to ensure that sufficient resilience going forward following the loss of a number of benefit investigation staff to the Department for Work and Pensions.

21. The Council also participates in the National Fraud Initiative, 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.

### Effectiveness

22. This section of the report sets out information on the effectiveness of the Internal Audit service and compliance with the Public Sector Internal Audit Standards (PSIAS).

23. In March 2016 the Internal Audit service undertook a self-assessment against the requirements of PSIAS and concluded it was compliant with this. This was reported to the Audit and Governance Committee with an action plan to address the minor issues arising, where there was partial rather than full compliance with the standards.

24. Internal Audit has a Quality Assurance and Improvement Programme (QAIP). The QAIP includes internal and external assessments of effectiveness, both on-going and periodic monitoring. Any areas for improvement are identified in the PSIAS compliance self-assessment.

25. 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.

26. 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:

<b>Performance Indicator</b>	<b>2015/16 Target</b>	<b>Actual Year End</b>
Percentage of 2015/16 audit plan completed *	90%	79%*
Productivity of staff	72%	73%
Implementation of agreed audit recommendations from 15/16 Plan	Within agreed timescales	90%

\* This figure is based on the number of audit reports issued as a percentage of the 2015/16 audit plan approved by the Audit and Governance Committee in March 2015. During 2015/16 the Committee requested the addition of one audit and approved the deferral/cancellation of nine audits. Other audit work carried out during the year includes participation on project and business groups, which is difficult to quantify in terms of audit plan coverage.

27. 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 and Counter Fraud 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) 2016  
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.

# 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.

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Date/Name	Summary of equality analysis
27 June 2016/Chief Internal Auditor	There are no equality implications arising from this report, being a summary of the work of Internal Audit for 2015/16.