

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



**Report reference:** AGC-002-2019/20  
**Date of meeting:** 12 September 2019

**Epping Forest  
District Council**

**Portfolio:** Leader of the Council

**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) The Committee is requested to note the following report for 2018/19 and the assurance level given:

- (a) Reviews the contents of this report and appendices as part of their review of the Annual Governance Statement; and
- (b) Agrees that for the 12 months ended 31 March 2019, the Council has operated adequate and effective governance, risk management arrangements and control processes. The exception to this, being business continuity, although the Council is already addressing the weaknesses identified.

## **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 2018/19.

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

This document summarises the results of internal audit work during 2018/19 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

The Chief Internal Auditor is required to provide the Council with a statement on the adequacy and effectiveness of the organisation's risk management, control and governance processes.

In giving an opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the organisation is a reasonable assurance there are no major weaknesses in the Council's risk management, control and governance processes.

In assessing the level of assurance to be given, the following have been taken into account:

- All audits undertaken during the year;
- Any follow-up action taken in respect of audits from previous periods;
- High priority recommendations not accepted by management or acted upon (there were none) and the consequent risks;
- The effects of any significant changes in the Council's objectives, activities or systems;
- Matters arising from previous reports to the Audit and Governance Committee;
- Any limitations which may have been placed on the scope of internal audit (there have not been any);
- Whether there have been any resources constraints impinged on the Chief Internal Auditor's ability to meet the full audit needs of the Council (there have been none); and
- The results of work performed by other assurance providers including the work of the financial statement auditors.

The Chief Internal Auditor is satisfied that sufficient internal audit work has been undertaken to allow them to draw a reasonable conclusion as to the adequacy and effectiveness (or inadequacy and ineffectiveness) of the Council's risk management, control and governance processes.

**Based upon the results of work undertaken during the year it is the Chief Internal Auditor's overall opinion that the Council has adequate and effective governance, risk management arrangements and control processes. The exception to this, being business continuity, although the Council is already addressing the weaknesses identified.**

### Context

This report outlines the work undertaken by Internal Audit covering the period 1 April 2018 to 31 March 2019.

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.

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.

The primary role of Internal Audit is to provide assurance to the Council and ultimately the taxpayers that the Council maintains an effective control environment that enables it to manage its significant organisational risks and has appropriate governance arrangements to support this. 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 2018/19

The 2018/19 Internal Audit Plan was presented to the Audit and Governance Committee in March 2018. 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

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.

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:

- 'Substantial' assurance – Overall, there is a sound system of control. Any weaknesses which put system/service objectives at risk will be minor and does not lead the Council to significant risk exposure.
- 'Moderate' assurance – Basically sound control, with areas of weakness, which put system/service objectives at risk. (Any high priority recommendations will prevent this level of assessment).
- 'Limited' assurance – There are significant weaknesses in more than one key control area, which could put system/service objectives or the Council at risk.
- 'No' assurance – There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk.

#### Summary of Assurance Work

A total of 25 assurance reviews were completed and overall the audits are positive with the majority being given Substantial assurance. For the reports given Moderate assurance these relate to a specific area rather than represent a breakdown of controls across the Council. The Moderate assurance rating was re-instated for the 2017/18 Audit Plan.

Swift action has been taken by the Council regarding the Limited and No assurance reports.

Assurance rating	2018/19	2017/18	2016/17
Substantial	14	13	17
Moderate	9	6	n/a
Limited	1	0	1
No	1	0	0
<b>Total</b>	<b>25</b>	<b>19</b>	<b>18</b>

Appendix A sets out work carried out by the Internal Audit service during the year in narrative form and compares this to the original plan agreed by the Audit and Governance Committee March 2018. This summary includes individual audit reviews, consultancy and advice and other Internal Audit engagement activities with the Council.

It is important that the work of Internal Audit is aligned with the strategies, objectives, and risks of the organisation. This is set out in the Audit Strategy and Audit Plan which the Audit and Governance Committee receive each March. Appendix B lists the individual audit reports issued as part of the 2018/19 Plan.

#### Tracker process

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 high, medium and low depending on the level of risk involved.

The Audit and Governance Committee receives a report of all overdue recommendations plus any high-risk recommendations from final reports issued, regardless whether they are overdue or not.

The process continues to work well with good 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

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

*Special investigations:* 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. The Audit and Governance Committee would be notified of any significant internal frauds (estimated at more than £10,000). There have been none for 2018/19 fulfilling these criteria; the same as 2017/18. There were no reported whistleblowing allegations.

*Advice:* 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 represented on key business groups which in 2018/19 included:

- The Corporate Governance Group
- Risk Management Group
- General Data Protection Regulations Working Group (now ceased)

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:* The Corporate Fraud Team reports directly to the Chief Internal Auditor and ensures a corporate approach to anti-fraud activities as well as ensuring synergies with the Internal Audit team. For example, the Council participates in the National Fraud Initiative (NFI), 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. Internal Audit works in tandem with the Corporate Fraud Team to investigate possible internal (Officer) fraud.

### Effectiveness

In line with good practice, the Internal Audit service should, on an annual basis, ensure it is compliant with the 2017 Public Sector Internal Audit Standards (PSIAS), notifying the Audit and Governance Committee of any areas of non-compliance.

Following an external assessment, the service was confirmed as being fully compliant in November 2016 and this is still the case as there have been no significant changes in the way the Internal Audit service is delivered or operates, and the Chief Internal Auditor has not taken on any additional responsibilities that could compromise the service's independence and objectivity.

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.

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:

Aspect of Service	Performance Indicator	Target	2018/19 Year End outcome	2017/18 Year End outcome
Audit Plan	Achievement of the Annual Plan	Sufficient internal audit work in order that the Chief Internal Auditor can give their annual opinion	Achieved	Achieved
Internal Audit processes	<ul style="list-style-type: none"> <li>Issue of draft report after closing meeting</li> <li>Issue of final report after agreement with client to draft</li> </ul>	<ul style="list-style-type: none"> <li>10 working days</li> <li>5 working days</li> </ul>	<ul style="list-style-type: none"> <li>4 days</li> <li>6 days</li> </ul>	<ul style="list-style-type: none"> <li>5 days</li> <li>3 days</li> </ul>
Effective management engagement	<ul style="list-style-type: none"> <li>Management responses within 10 working days of draft report</li> <li>Implementation of</li> </ul>	<ul style="list-style-type: none"> <li>10 working days</li> <li>Within agreed timescales</li> </ul>	<ul style="list-style-type: none"> <li>14 days *</li> <li>Largely met (as</li> </ul>	<ul style="list-style-type: none"> <li>10 days</li> <li>Largely met (as</li> </ul>

	agreed audit recommendations		reported by tracker)	reported by tracker)
Continuous Professional Development (CPD)	Auditors maintain and improve their knowledge, skills and other competencies through directed and self-directed activities.	40 hours of CPD activity per auditor	Achieved	New PI introduced 2018/19

\* There have been a number of complex reports or wider reaching recommendations made that have taken time to finalise to ensure agreed action plans to correct weaknesses identified are right for Epping Forest and are realistic and achievable.

### **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) 2017  
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.

### **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 C to the report.