

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-013-2019/20
Date of meeting: 27 January 2020

Portfolio: Leader of the Council
Subject: Internal Audit Monitoring Report – November to January 2020
Responsible Officer: Sarah Marsh (01992 564446).
Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1)) That the Committee notes the progress made against the 2019/20 Internal Audit Plan and the summary of the work of Internal Audit and the Corporate Fraud Team for the period November 2019 to January 2020;**
- (2)) That the Committee approves the revised Internal Audit Charter; and**
- (3)) That the Committee approves the revised Local Code of Corporate Governance.**

Executive Summary:

This report updates Members on the work completed by Internal Audit and the Corporate Fraud Team since the November 2019 Audit and Governance Committee and provides the current position in relation to overdue recommendations.

The Internal Audit Charter has been reviewed to ensure it is fully compliant with the PSIAS (Public Sector Internal Audit Standards) and is attached at appendix 4. The main enhancement is to ensure the division between assurance and consultancy work is clearly defined.

The Local Code of Corporate Governance has been reviewed with only minor changes proposed and is attached at appendix 5.

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:

2019/20 Internal Audit Plan

1. Good progress has been made on the 2019/20 Audit Plan as detailed in Appendix 1. The timings of the audits have been agreed with the Leadership Team to ensure a timely flow of audit

reports throughout the year.

2. The current risk register is attached at Appendix 2. This was approved by the Finance and Performance Management Cabinet Committee on 26 September 2019 and considered by this Committee at their November 2019 meeting. Suggestions for improvement have been considered by the Risk Management Group and will be next reported to the 23 January 2020 Finance and Performance Management Cabinet Committee meeting.

Internal Audit Reports

3. The following four reports have been issued since the Committee received its last update in November 2019:

(a) Recycling Management and Income– Substantial assurance

4. A Waste Management Partnership Board (WMPB) provides strategic oversight and robust challenge over the contract, providing a mechanism for effective dialogue and resolution of issues at senior officer and Member level. Operationally, the contract is managed through Waste Contract Managers meetings and issues are escalated to the WMPB if they are unable to be satisfactorily resolved at manager level. The Council and contractor work co-operatively at all levels to achieve the best outcomes for the Council, residents and the contractor, and this was confirmed through interview with Council and contractor staff. Contract performance is monitored through a set of operational statistics and performance indicators and contract payments are verified prior to approval for payment.

5. Robust controls ensure monthly recycling credits claimed by the Council are complete and accurate. The methodology for calculating the 2018/19 recycling income unit rate has been subject to extensive negotiations between the Council and contractor. The calculation has been revised by the Council to reflect the Council's investment in the contractor's Materials Recycling Facility and benefit from the increased sales value of improved recycling products. A methodology has now been agreed and will be formally recorded as a contract variation to avoid future disputes.

6. Recycling key performance indicators (KPIs) are subject to effective scrutiny by Officers and Members on a quarterly basis and are consistently achieved. The relevance of the existing recycling KPIs and targets is being considered alongside the impact of the government's 2018 waste strategy as part of the service review by the Waste Management Task and Finish Panel.

(b) Invoices Payments – Substantial assurance

7. Sample testing confirmed official purchase orders are raised for goods and services in line with delegated authorities and Financial Regulations, on either Marketplace (purchase order system) or OHMS (Housing IT system), unless specifically exempt. The recent centralisation of purchase ordering within Business Support should be communicated to staff. Following this, systems access to raising orders on Marketplace, previously carried out within the services, should be appropriately restricted.

8. Goods and services are receipted prior to authorising invoices for payment and there is segregation of duties between order and invoice approval. The workflows on Marketplace should be amended to ensure only officers with the correct delegated authority can approve invoice payments. To address this issue and improve purchase order and invoice processes across the Council, the Business Support Service Manager is actively exploring options with the software provider and the Council's ICT manager.

9. Internal Audit identified a duplicate payment of £27,707 which has subsequently been refunded by the supplier. This occurred because the accounts payable IT system, e-financials, does not recognise duplicate supplier invoices if the amounts differ. This system issue has been addressed by the Business Analyst and the Council is looking into purchasing software to identify anomalies which can then be investigated.

10. Value for money for purchases is demonstrated through quotes or tenders obtained in accordance with the Council's Procurement Rules.

(c) Housing Register and Allocations – Substantial assurance

11. Overall there is a sound control framework to manage the Housing Register and Housing Allocation arrangements.

12. Controls ensure only valid applicants are admitted onto the Housing Register in accordance with the eligibility criteria on residency, housing need and financial situation. It was also verified that applicants are correctly banded as to their housing need status in accordance with the Allocation Scheme criteria. Going forward, all applicants will be subject to an Experian check by pre-verification stage to confirm residency and property ownership.

13. Available housing is allocated in priority order to those who bid on each available property, with the highest ranked applicant being verified and check as to compliance with the Allocation Scheme conditions, before an offer of tenancy is made. All applicants on the Housing Register should be sufficiently validated to prevent delays in allocating properties following the closing of the bidding.

14. Two good practice points have been made to help reduce voids periods and also reduce Ombudsman complaints, as the Council has a higher level than other councils locally.

(d) Business Support Reconciliations – Limited assurance

15. The audit assessed the control framework for managing, completing, reviewing and investigating any differences for income reconciliations that are, or will be, undertaken by the Business Support Team, as part of the Council's transformation programme.

16. It was identified that the Building Control, Legal Fees and Industrial and Commercial rents reconciliations are not being carried out and as such there is limited assurance that all transactions in these areas are recorded in the Council's accounting records. These three reconciliations have yet to be transferred to the Business Support Team.

17. The audit also found the following weakness in those reconciliations which are being performed:

- There are no adequate procedure notes;
- Reconciliations are not signed by the originators;
- There is no management sign off to evidence review; and
- Reconciliation differences are not resolved by the service areas.

18. Under the new Business Support arrangement, roles and responsibilities should be clearly defined and clear procedural guidance developed to ensure controls operate effectively.

Recommendation Tracker

19. 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.

20. The current tracker is shown at Appendix 3 and contains one high, ten medium and five low priority recommendations which have passed their due dates (compared to one high, seven medium and five low priority overdue recommendations in November 2019).

21. A high priority recommendation, which has not passed its due date, has been raised in relation to Business Support income reconciliations. The high priority recommendation passed its due date relates to business continuity.

Table 1. Summary of tracker as at January 2020.

Recommendation type	Number (January 2020)	Number (November 2019)	Number (August 2019)	Number (March 2019)	Number (January 2019)
High Priority not passed its due date	1	0	1	0	0
High Priority passed its due date	1	1	0	0	0
Medium Priority passed its due date	10	7	5	5	6
Low Priority passed its due date	5	5	5	2	3
Total	17	13	11	7	9

22. The number of overdue medium priority recommendations is cause for concern, although it is noted that several of these are expected to be completed shortly. Others are progressing well, but not as quickly as first agreed with the relevant manager. For example, North Weald Airfield fees and charges and the Economic Development Strategy are the subject of separate reports to Cabinet in February and March 2020. The roll-out of devices to Members will be completed in January 2020 and will address the risks around personal data shared by email with Members. The electronic staff gifts and hospitality register has been established and will be rolled out in the next edition of District Lines. Regarding the other recommendations, Internal Audit with the assistance of the Corporate Governance Group continue to actively monitor progress.

Review of the Internal Audit Charter

23. The Internal Audit Charter sets out the common practices of Internal Audit and requires annual review in accordance with the Public Sector Internal Audit Standards (PSIAS). This was last undertaken in January 2019.

24. The Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committees practical guidance for Local Authorities and Police 2018 edition states that an Audit Committee (the committee) should have a role in reviewing and 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.

25. A review of the current Internal Audit Charter (Appendix 4) confirms it is still fit for

purpose. Some changes (underlined in bold) have been made to ensure it is fully compliant with the PSIAS. The main enhancement is to ensure the division between assurance and consultancy work is clearly defined.

Review of the Local Code of Corporate Governance

26. The Local Code of Corporate Governance forms part of the Council's governance arrangements and was updated in February 2017 to reflect the then new framework for corporate governance published by CIPFA (Chartered Institute of Public Finance and Accountancy) and Solace (Society of Local Authority Chief Executives) in 2016.

27. The Audit and Governance Committee approved the Council's revised Local Code of Corporate Governance in January 2019 and agreed that it would review the Code annually. The only changes required to the Code (underlined in bold), attached at Appendix 5, are to reflect the Council's management restructure and current policies.

Corporate Fraud Team Update

28. Since the last meeting a further two Right to Buy applications have been stopped / withdrawn as a result of Corporate Fraud Team (CFT) intervention resulting in a discount saving of approximately £166,000 and potential ongoing rent revenue streams of around £105,000.

29. One Right to Buy investigation which (at the time of writing) is still ongoing, has actively identified safeguarding issues relating to suspected financial abuse of an elderly person. The CFT is working closely with the Council's Safeguarding Officer and The Office of The Public Guardian to investigate this matter fully.

30. An investigation into the suspected illegal subletting of a council property is now at the stage where the CFT and Housing are working with Legal Services to explore the legal options (including a potential criminal prosecution).

31. International Fraud Awareness Week was well received and as a result a number of productive meetings took place with Service / Team Managers from around the Council. These meetings enabled both the managers and the CFT to understand better the areas within their respective services that are potential fraud risks and has encouraged a joined-up approach going forward to address them and to make teams more fraud aware.

Progress against Annual Governance Statement

32. In July 2019, 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 2019/20 is shown in table 2 below.

Table 2.

No	Improvement area	Risk area/action plan for 2019/20	Progress at January 2020
1	Business Continuity Planning (BCP)	An internal audit of BCP found that although there is a corporate Business Continuity plan it is not fit for purpose and contingency	The Corporate Governance Group continues to oversee implementation of

		<p>arrangements in place are inadequate.</p> <p>An urgent project has been initiated due for completion November 2019, and action is already being taken to address the concerns raised by Internal Audit which involves a dedicated Officer group working in conjunction with an external specialist. Progress against the project is being closely monitored by the Corporate Governance Group, which is chaired by the Chief Executive.</p>	<p>the business continuity project.</p> <p>It has been proposed that the exercises on business continuity that are due to be held shortly will include for practical and other reasons the impact of decants and other service interruptions arising from such moves. This is a positive approach.</p>
2	<p>Economic climate: Uncertainty over Brexit may impair the Council's strategic aims and objectives</p>	<p>Brexit implications, and other economic uncertainties, are being regularly monitored by Leadership Team. The Council liaises with the Local Resilience Forum Lead and with the East of England Local Government Association on Brexit related operational issues and community impact. In turn both these organisations liaise with Ministry for Housing, Communities and Local Government</p>	<p>The economic climate has been reviewed as part of the 2020/21 budget and includes the general and more significant impact of international protectionism and economic uncertainties as well as the impact for a shorter period of time of Brexit uncertainties.</p> <p>Local growth and inflation levels are expected to remain low although inflation pressures are predicted to peak at around 3% next year.</p> <p>Economic conditions are reviewed across the Council and are discussed at Leadership Team and Cabinet level each month.</p>
3	<p>Statutory posts: It is important the Council ensures that the role,</p>	<p>This will be kept under review by the Leadership Team in consultation with the Monitoring Officer, Section 151 Officer, Internal and External</p>	<p>Since September 2019 there has been a period of stability regarding the</p>

	responsibilities and standing of the Council's Section 151 Officer and Monitoring Officer complies with legislation (in particular the Local Government and Housing Act 1989) and good practice as the Council's restructure is completed	Audit. External legal advice will be obtained if deemed necessary.	Section 151 and Monitoring Officer posts.
4	Close down of Accounts: Delays have been encountered in the closure of the Council's 2018/19 accounts due to a variety of internal and external factors and will result in an increase in Audit fees.	The Council is jointly working on improvements with its External Auditors, which includes a review of processes, working papers and electronic files. Ultimately this will ensure streamline and efficient processes are in place ahead of closing next year's accounts.	The Audit and Governance Committee has received an action plan to improve account closure and will receive an update on the "trial" month 9 closure at its next meeting. A final version of the 2019/20 accounts plus external audit report are also due to be received at the next meetings.
Common themes from the Service Assurance Statements were:			
5	Restructure: As a result of the restructure many Officers have/or will be taking on new roles and responsibilities. The Council's scheme of delegation needs to remain robust and fit for purpose. In addition, support and guidance needs to be offered to these Officers	Delegated authorities are being reviewed by the Service Director (Business Services) and are included in the Leadership Team Work Plan. A staff awareness campaign will be undertaken to ensure Officers are aware of their responsibilities regarding corporate policies and training offered as appropriate. This includes Financial Regulations, Procurement Rules, Anti-Fraud and Corruption Policy, Whistleblowing procedure, Code of Conduct and Customer Service Standards.	Work as set out in the previous column continues.

Legal and Governance Implications:

None

Safer, Cleaner and Greener Implications:

None

Consultation Undertaken:

Corporate Governance Group

Background Papers:

2019/20 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 6 to the report.