

**AUDIT AND GOVERNANCE COMMITTEE
Monday, 30th June, 2014**

You are invited to attend the next meeting of **Audit and Governance Committee**, which will be held at:

**Council Chamber, Civic Offices, High Street, Epping
on Monday, 30th June, 2014
at 7.30 pm .**

**Glen Chipp
Chief Executive**

**Democratic Services
Officer**

Gary Woodhall
The Directorate of Governance
Tel: 01992 564470
Email: democraticservices@eppingforestdc.gov.uk

Members:

Councillors A Watts, P Keska and S Weston

Independent R Thompson and A Jarvis.

PLEASE NOTE THAT, PRIOR TO THE START OF THE MEETING, A PRIVATE BRIEFING HAVE BEEN SCHEDULED FOR THE COMMITTEE WITH THE EXTERNAL AUDITOR AT 7.00PM.

WEBCASTING/FILMING NOTICE

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1. WEBCASTING INTRODUCTION

I would like to remind everyone present that this meeting will be recorded for subsequent repeated viewing on the Internet and copies of the recording could be made available for those that request it.

By being present at this meeting it is likely that the recording cameras will capture your image and this will result in your image becoming part of the broadcast.

You should be aware that this might infringe your human and data protection rights. If you have any concerns please speak to the webcasting officer.

Please could I also remind members to put on their microphones before speaking by pressing the button on the microphone unit.

2. APOLOGIES FOR ABSENCE

3. DECLARATIONS OF INTEREST

To declare interests in any item on this agenda.

4. MINUTES

To confirm the minutes of the last meeting of the Committee held on 3 April 2014 (previously circulated).

5. MATTERS ARISING

To consider any matters arising from the previous meeting.

6. AUDIT AND GOVERNANCE WORK PROGRAMME 2014/15 (Pages 5 - 6)

(Director of Governance) To consider the attached Work Programme for 2014/15.

7. INTERNAL AUDIT MONITORING REPORT JANUARY - MARCH 2014 (Pages 7 - 20)

(Chief Internal Auditor) To consider the attached report (AGC-002-2014/15).

8. INTERNAL AUDIT ANNUAL REPORT 2013/14 AND REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT (Pages 21 - 30)

(Chief Internal Auditor) To consider the attached report (AGC-003-2014/15).

9. AUDIT AND GOVERNANCE COMMITTEE ANNUAL REPORT 2013/14 (Pages 31 - 40)

(Chief Internal Auditor) To consider the attached report (AGC-004-2014/15).

10. ANNUAL GOVERNANCE STATEMENT 2013/14 (Pages 41 - 48)

(Chief Internal Auditor) To consider the attached report (AGC-005-2014/15).

11. ANY OTHER BUSINESS

Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs (6) and (24) of the Council Procedure Rules contained in the Constitution require that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

In accordance with Operational Standing Order 6 (Non-Executive Bodies), any item raised by a non-member shall require the support of a member of the Committee concerned and the Chairman of that Committee. Two weeks notice of non-urgent items is required.

12. EXCLUSION OF PUBLIC AND PRESS

Exclusion:

To consider whether, under Section 100(A)(4) of the Local Government Act 1972, the public and press should be excluded from the meeting for the items of business set out below on grounds that they will involve the likely disclosure of exempt information as defined in the following paragraph(s) of Part 1 of Schedule 12A of the Act (as amended) or are confidential under Section 100(A)(2):

Agenda Item No	Subject	Exempt Information Paragraph Number
13	Local Government Ombudsman Decisions	1

The Local Government (Access to Information) (Variation) Order 2006, which came into effect on 1 March 2006, requires the Council to consider whether maintaining the exemption listed above outweighs the potential public interest in disclosing the information. Any member who considers that this test should be applied to any currently exempted matter on this agenda should contact the proper officer at least 24 hours prior to the meeting.

Confidential Items Commencement:

Paragraph 9 of the Council Procedure Rules contained in the Constitution require:

- (1) all business of the Council requiring to be transacted in the presence of the press and public to be completed by 10.00 p.m. at the latest;
- (2) at the time appointed under (1) above, the Chairman shall permit the completion of debate on any item still under consideration, and at his or her discretion, any other remaining business whereupon the Council shall proceed to exclude the public and press; and
- (3) any public business remaining to be dealt with shall be deferred until after the completion of the private part of the meeting, including items submitted for report rather than decision.

Background Papers:

Paragraph 8 of the Access to Information Procedure Rules of the Constitution define background papers as being documents relating to the subject matter of the report

which in the Proper Officer's opinion:

(a) disclose any facts or matters on which the report or an important part of the report is based; and

(b) have been relied on to a material extent in preparing the report and does not include published works or those which disclose exempt or confidential information (as defined in Rule 10) and in respect of executive reports, the advice of any political advisor.

Inspection of background papers may be arranged by contacting the officer responsible for the item.

13. LOCAL GOVERNMENT OMBUDSMAN DECISIONS (Pages 49 - 64)

(Director of Communities) To consider the attached report (AGC-001-2014/15).

Audit & Governance Committee Report Schedule

2014/15

30 June 2014

- Internal Audit Annual Report.
- Review of the Effectiveness of Internal Audit.
- Audit & Governance Committee Annual Report.
- Annual Governance Statement.
- Q4 Internal Audit Monitoring Report.

25 September 2014

- Treasury Management Annual Outturn Report.
 - Statutory Statement of Accounts.
 - Q1 Internal Audit Monitoring Report.
 - Appointment of Co-Opted Member – Report on Recruitment.
- ❖ Annual Governance Report 2013/14.

24 November 2014

- Treasury Management Mid-Year Report.
 - Q2 Internal Audit Monitoring Report.
 - Review of Business Continuity Plan for Internal Audit.
- ❖ Annual Audit Letter 2013/14.

5 February 2015

- Treasury Management Investment & Strategy Statements.
 - Q3 Internal Audit Monitoring Report.
- ❖ Grant Claims Audit Report 2013/14.

30 March 2015

- Effectiveness of Risk Management.
 - Internal Audit Business Plan.
- ❖ Planning Letter 2015/16.
- ❖ Audit Plan 2014/15.

Key

- EFDC Officer Report.
- ❖ External Auditor Report.

N.B....In addition, the Committee's annual private meetings with the External and Internal Auditors are scheduled to take place prior to the 30 March 2015 meeting.

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Report to the Audit and Governance Committee



Report reference: AGC-002-2014/15
Date of meeting: 30 June 2014

**Epping Forest
District Council**

Portfolio: Finance and Technology

Subject: Internal Audit Monitoring Report - January to March 2014

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) The Committee is requested to note the following issues arising from the Internal Audit Team's fourth quarter monitoring report for 2013/14:

- (a) The reports issued between January and March 2014 and significant findings (Appendix 1);
- (b) The Outstanding Priority 1 Actions Status Report (Appendix 2);
- (c) The Limited Assurance Audits follow up status report (Appendix 3);
- (d) The 2013/14 Audit Plan status report (Appendix 4).

Executive Summary:

This report provides a summary of the work undertaken by the Internal Audit Unit between January and March 2014, and details the overall performance to date against the Audit Plan for 2013/14. The report also contains a status report on previous priority 1 audit recommendations which continue to be monitored by the Corporate Governance Group.

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:

Work Carried Out in the Period

1. The audit reports issued in the fourth quarter are listed in paragraph 3 below.
2. Audits completed in the fourth quarter have concentrated on fundamental financial systems and income streams, the detailed findings of which are in appendix 1. At the end of the quarter a further five audits were in progress or at the draft report stage.

Reports Issued

3. The following audit reports were issued in the fourth quarter:

- (a) Full Assurance:
 - None;
- (b) Substantial Assurance:
 - Sundry Debtors;
 - Treasury Management;
 - Council Tax;
 - Cash Receipting and Income Control;
 - Housing Repairs Service;
 - Payroll; and
 - Car Mileage Claims;
- (c) Limited Assurance:
 - Car Parking Contract;
- (d) No Assurance:
 - None; and
- (e) At Draft Report Stage:
 - Creditors;
 - Housing Benefits;
 - Housing Rent Collection and Arrears;
 - Overtime and Committee Allowances; and
 - Travelling and Subsistence Claims.

Limited Assurance

4. During the quarter, one report, Car Parking Income was issued with a Limited assurance rating. This rating was based on the current limitations of the information supplied by the North Essex Parking Partnership (NEPP), which is in the process of being resolved by management. The introduction of new parking meters will also greatly improve the monitoring of the pay and display income received. This audit was a review of the controls surrounding off street parking income. A more detailed check, including a review of the NEPP contract and its' governance will be carried out as part of the 2014/15 audit plan.

Follow Up of Previous Priority 1 Recommendations

5. Attached at Appendix 2 is a schedule of outstanding priority 1 recommendations to ensure follow up both by Internal Audit and Directorate Management. These recommendations are monitored on a monthly basis by the Corporate Governance Group.

Audit Plan 2013/14 (Appendix 4)

6. The status of the 2013/14 Audit Plan is set out at Appendix 4.

Performance Management

7. The Internal Audit Team has local performance indicator targets to meet in 2013/14, as set out below:

	Actual 2009/10 For year	Actual 2010/11 For year	Actual 2011/12 For year	Actual 2012/13 For year	Target 2013/14 Quarter 4	Actual 2013/14 Quarter 4
% Planned audits completed	87%	82%	82%	85%	90%	77%
% chargeable "fee" staff time	69%	66%	71%	69%	72%	68%
Average cost per audit day	£300	£307	£213	£243	£245	£247
% User satisfaction	94%	86%	89%	85%	89%	See note below

8. The indicators are calculated as follows:

(a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan;

(b) % Chargeable fee time - a calculation is made each quarter based on reports produced from Internal Audit's time recording system;

(c) Average cost per audit day - the calculation is based on the costs for each quarter taken from the budget monitoring reports, divided by the number of fee earning days extracted from the time recording system.

(d) User satisfaction has been based on a customer survey form which was replaced by an electronic form for use from April 2013. The rate of return did not improve with the new simplified form so Management will be reminded of the importance of performance indicators and the need to complete and return the survey forms in a timely manner. Also research is currently being carried out to see what indicators other councils internal audits report that might be useful for EFDC to adopt.

9. A member of staff had a further period of sick leave and returned to work on a phased return at the beginning of February. This required the reallocation of outstanding work to ensure that the fundamental financial systems were reviewed by the end of the financial year. This work was substantially complete at the end of March as required by the external auditors.

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:

Audit files and working papers.

Impact Assessments:

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 monitoring report will assist managers to determine the adequacy and effectiveness of the arrangements in place in their services.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

Definition of Levels of Assurance

Level	Evaluation opinion	Testing opinion
Full assurance	There is a sound system of control designed to achieve the system objective.	The controls are being consistently applied.
Substantial assurance	While there is a basically sound system, there are weaknesses that put some of the system's objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system's objectives at risk.
Limited assurance	Weaknesses in the system of controls are such as to put the system's objectives at risk.	The level of non-compliance puts the system's objectives at risk.
No assurance	Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

**SUMMARY OF AUDITS COMPLETED DURING QUARTER 4
January - March 2014**

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Sundry Debtors	Finance and ICT	Substantial Assurance There are sound controls in place for recovery of debts.	This audit has provided assurance in the system for sundry debts. Improvement areas have been identified to improve the internal controls and to ensure recovery of income due to the Council is maximised.
Treasury Management	Finance and ICT	Substantial Assurance The systems and controls surrounding treasury management are operating effectively.	Investments are made in accordance with the Authority's Treasury Management Policy. Best practice is identified throughout the process and file documentation provides a clear audit trail.
Council Tax	Finance and ICT	Substantial Assurance The council tax function is well administered and data held is accurate and up to date. The controls in place are effective in mitigating the risks faced by the Council Tax function.	Daily activities are generally completed accurately and timely. The area of supervisory checking has improved significantly and is now an area Audit can place assurance upon. An area of improvement in regards reconciliation completion was highlighted and this has now been discussed with management to ensure improvement going forward.
Cash Receipting and Income Control	Finance and ICT	Substantial Assurance The systems and controls surrounding cash receipting and income control are operating effectively. Two recommendations have been	All income received is recorded on AXIS Cash Receipting and is reconciled on a daily basis to the general ledger and bank statement. The cash collected from the kiosk at Waltham Abbey

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
		raised.	<p>includes some of the float used to top it up for change and the difference is posted to a specific account. However, this account has not been fully reconciled.</p> <p>A review of the officers with access to the cash offices at Epping highlighted the need for a regular review, by management, of access granted to this area.</p>
Housing Repairs Service	Housing	<p>Substantial Assurance The systems and controls surrounding the management of the Housing Repairs Service are operating effectively.</p>	<p>Management have already introduced a number of changes to address weaknesses previously identified.</p> <p>Implementation of the MCM system has significantly improved the management of responsive repairs as it incorporates real time processing of repairs, an appointment system and materials procurement system, thereby eliminating many of the manual processes previously employed. The enhanced management reporting facility has also improved the monitoring of budgets and staff performance.</p>
Payroll	Corporate Support Services	<p>Substantial Assurance The systems and controls in place in relation to payroll are operating effectively.</p>	<p>The payroll system holds a complete and accurate record of staff employed by the Authority and is regularly reconciled to the establishment list within HR.</p> <p>Salary payments and deductions are correctly calculated. Testing showed that deductions from pay are legitimate and accurate, and are all supported by relevant documentation authorised by the relevant employee.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Car Mileage Claims	Corporate Support Services	<p>Substantial Assurance There was no evidence of fraudulent activity found. However there were issues identified which need to be addressed to reduce the risk to the Council.</p>	<p>This report provides a view that Mileage claims are generally submitted in a timely manner. Mileage claims are supported by fuel receipts and signed off by authorised signatories. All claims checked are matched to the payroll and all payments were made at the correct rate.</p>
Car Parking Contract	Environment and Street Scene	<p>Limited Assurance Based on the current limitations of the information supplied by NEPP, which is in the process of being resolved, this audit is given a limited assurance. It should be noted that the evaluation and testing of the system of key controls in place at EFDC, designed to achieve the objectives relating to off street car parking income, we can provide management with assurance that the processes are sound and are in place for when the full data is made available from NEPP.</p>	<p>The pay and display off street car parking income is adequately monitored. As little supporting documentation is received in relation to the Penalty Charge Notice (PCN) and Season Ticket income, it is not possible to verify this. However, the volume of PCNs is being monitored to ensure there are no significant fluctuations and any issues identified are raised with NEPP. Additionally, some assurance should be provided as the car parking contract is subject to independent review by Colchester Borough Council Internal Audit Section, which is contracted to Deloitte.</p>

**INTERNAL AUDIT
OUTSTANDING PRIORITY 1 ACTIONS – STATUS AS AT 31st March 2014**

Appendix 2

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Recruitment and Selection	Management to be reminded of the importance of ensuring the recruitment process is fully documented, including all inductions completed timely and all required paperwork provided to the employee.	Assistant Director HR	30/4/14	<p>Management will be reminded to complete and record all inductions.</p> <p>The HR apprentice will update the checklist for employees when filing the PDR and data cleanse forms.</p> <p>Our apprentice left so we haven't made a start on checking the files, also going forward our grade 2 post is being filled by an agency worker who is not checking files at this time (time being the main factor). We have no other resources to do this work at the moment but will keep it under review – we are advertising for a temp admin post and it could be they take this forward. (This is not an additional resource but we a re-jigging duties).</p>	Reminder actioned.	30 th January 2014
Commercial Property Portfolio	Some rent review dates on GVA do not agree to the information held on the Valuers spreadsheets. Therefore the data held on GVA should be checked to ensure that it is correct prior to transferring it to	Assistant Director (Asset Management & Economic Development)	31/3/14	<p>Agreed. The data will be cleansed before being loaded onto the new system. There are currently delays in the implementation of the new system.</p> <p>We have tendered for the</p>		

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
	the new IT system.			replacement to the GVA system but unfortunately the system does not seem to do what they alleged so is not currently progressing. A letter has gone to the company from Legal Services and if the matter is not resolved shortly we will either have to look to another tenderer or re-tender again.		

**INTERNAL AUDIT
FOLLOW UP OF LIMITED ASSURANCE AUDITS AS AT April 2014**

Appendix 3

Report Title	Directorate	Date Issued	Agreed Actions by priority	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
<p>Car Parking Income</p>	<p>Environment and Street Scene</p>	<p>March 2014</p>	<p>P1. 0 P2. 1 P3. 0</p>	<p>P1. 0 P2. 1 P3. 0</p>	<p>Q3 2014/15</p>	<p>The pay and display off street car parking income is adequately monitored. However, the introduction of new parking meters will enable the pay and display income to be more effectively monitored.</p> <p>As little supporting documentation is received in relation to the Penalty Charge Notice (PCN) and Season Ticket income, it is not possible to verify this. This is in the process of being addressed by management. In the meantime however, the volume of PCNs is being monitored to ensure there are no significant fluctuations and the any issues identified are raised with NEPP.</p> <p>Additionally, some assurance should be provided as the car parking contract is subject to independent review by Colchester Borough Council Internal Audit Section.</p>

Internal Audit Plan 2013/14

Appendix 4

Key	Risk Identifier
AC	Audit Commission
FFS	Fundamental Finance System
R no.	Risk No. in Corporate Register
R	Reputation of Council

AUDIT PLAN 2013/14

Audit area	Audit type	Days allocated	Completed	Risk Identifier
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15	Completed	FFS
Sundry Debtors	system/follow up	15	Completed	FFS
Creditors	system/follow up	15	Completed	FFS
Treasury Management	system/follow up	15	Completed	FFS/R26
Budgetary Control (capital and revenue)	system/follow up	10	Completed	FFS
Risk Management and Insurance	system/follow up	15	Completed	FFS
Main Accounting and Financial Ledger	system/follow up	15	Completed	FFS
Housing Benefits	system/follow up	20	Completed	FFS
Council Tax	system/follow up	20	Completed	FFS/R27/AC
Business Rates	system/follow up	15	Completed	FFS/R27
Cash receipting and Income control	system/follow up	15	Completed	FFS
Provision for 'top up' testing	systems	30	Completed	FFS
ICT				
ICT Procurement	ICT	10	Completed	AC/R2
Access controls	ICT	10	Completed	FFS
Disaster recovery/business continuity	ICT	10	Completed	R8
TOTAL		230		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	System	20	Carried Fwd	R27
Countrycare	System	10	Completed	R
TOTAL		30		

ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	system	20	Completed	R20
Car Parking Contract	system	10	Completed	R27
North Weald airfield	establishment	15	Carried Fwd	R27
TOTAL		45		
HOUSING				
Housing Rent Collection and Arrears	system/follow up	20	Completed	FFS/R27
Right to Buy	system	10	Carried Fwd	AC
Housing Repairs Service	system	20	Completed	
Housing Contracts	system	20	Completed	R2
Private Sector Housing - Grants	system	15	Completed	
Norway House	Establishment	10	Carried Fwd	
TOTAL		95		
CORPORATE SUPPORT SERVICES				
Human Resources				
Payroll	System/follow up	20	Completed	FFS
Recruitment and Selection	Follow up	5	Completed	AC
Management of Sickness absence	Follow up	5	Completed	R15
Overtime and Committee Allowances	verification	10	Completed	R
Travelling & Subsistence Claims	verification	10	Completed	R
Car Mileage claims	verification	10	Completed	R
Estates/Facilities Management/Other				
Commercial Property portfolio	Follow up	5	Completed	R9
Reprographics	System	10	Carried Fwd	
Fleet Operations income	system	5	Completed	R27
Facilities Management Contracts	system	10	Carried Fwd	R2
Legal				
Debt recovery	Follow up	10	Carried Fwd	R27

TOTAL		100		
PERFORMANCE IMPROVEMENT				
Key and Local Performance Indicators	verification	15	Completed	R
Business Plans	verification	10	Completed	R
Equality Analysis	verification	10	Carried Fwd	R
FRAUD PREVENTION & DETECTION				
Contracts	fraud }	15	Completed	AC/R20
Procurement	fraud }	15	Completed	AC/R2
Council Tax Discounts	fraud	15	Completed	AC/R23
National Fraud Initiative (NFI)	fraud	20	Completed	R23
Data matching and analysis (IDEA software)	fraud	25	Completed	AC
CORPORATE				
Corporate Procurement	system/follow up	15	Carried Fwd	AC/R2
Gifts and Hospitality (Members & Officers)	system/follow up	10	Completed	R
Corporate Asset Register	system	5	Completed	FFS
Priority 1 Audit recommendations	follow up	10	Completed	R23
Governance Statement	management review	5	Completed	AC/R
TOTAL		170		
TOTAL DAYS ALLOCATED		670		
Contingency/Minor investigations		40	Completed	R23
Corporate/Service Advice		65	Completed	
TOTAL		775		

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-003-2013/14

Date of meeting: 30 June 2014

Portfolio: Finance

Subject: Internal Audit Annual Report 2013/14 and Review of the Effectiveness of the System of Internal Audit

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) The Committee is requested to note the following report for 2013/14 and the assurance level given:

(a) The 2013/14 Audit Plan status report as at 31 March 2014 (Appendix 2);

(b) To note the review of the effectiveness of the system of internal audit, undertaken by the Corporate Governance Group for 2013/14, in the context of the Council's Governance Statement; and

(c) To scrutinise the review and consider the effectiveness of the system of internal audit in 2013/14.

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, provides a summary of the work undertaken by the Internal Audit Unit between April 2013 and March 2014 and details the overall performance against the Audit Plan for 2013/14.

The Accounts and Audit Regulations 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 summarises the review undertaken for 2013/14 by the Corporate Governance Group, to assist the Committee in assessing the effectiveness of the system of internal audit on behalf of the Authority.

Reasons for Proposed Decision:

Monitoring report as required by the Audit and Governance Committee Terms of Reference.

To provide the Committee with the opportunity to scrutinise the review of effectiveness.

Other Options for Action:

No other options.

Report:

Introduction

1. The Internal Audit Annual Report for 2013/14 is based on the Public Sector Internal Audit Standards (PSIAS) which came into force as from 1 April 2013. The work referred to in this report was carried out as part of the agreed Audit Plan for the period from 1 April 2013 to 31 March 2014.
2. The purpose of the report is to support the Internal Audit opinion on the adequacy of Epping Forest District Council's (EFDC) internal control environment as a contribution to the proper, economic, efficient, and effective use of resources. This report provides part of the evidence that underpins the Corporate Governance Statement published in the Council's Statutory Statement of Accounts, in line with the requirements of the Accounts and Audit Regulations 2011.

Opinion

3. The work of Internal Audit continues to improve awareness of governance requirements and to promote improvement in systems. Although overall full assurance cannot be given as risks cannot be totally minimised, the opinion given in this report provides a reasonable level of assurance that there are no significant weaknesses in the Council's control environment, as the audits carried out during 2013/14 concluded that systems were generally operating satisfactorily and appropriate follow up action has been taken where required to reduce risk of error or fraud.
4. No material errors were identified from Internal Audit work carried out on the Council's major financial systems during 2013/14. Reviews of the Council's overall systems of internal control identified some weaknesses in internal controls which were referred to in reports to the Audit and Governance Committee, and in the Council's Governance Statement.

External Audit

5. The Authority's External Auditor has a statutory responsibility to express an independent opinion on EFDC's accounts, performance management and the financial aspects of corporate governance. The External Auditors (BDO) are appointed by the Audit Commission, who have to be confident in the processes and procedures at EFDC to produce the accounts by the statutory deadline each year, as well as being able to place reliance on the work of Internal Audit. Internal and External Audit work closely together to avoid duplication of audit effort and to ensure that the Council receives comprehensive audit coverage.

The Role of Internal Audit

6. Internal Audit is provided in the context of the Council's statutory responsibility to make arrangements for the proper administration of its financial affairs. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
7. The main elements of the work are to:
 - (a) audit and report on the core financial controls throughout the Authority;
 - (b) provide advice during the development of new systems;
 - (c) provide advice on financial, contractual and IT controls, including Financial Regulations and Contract Standing Orders;
 - (d) review computer and network security;

- (e) investigate suspected fraud, corruption, bribery and other irregularities;
- (f) monitor the Anti-fraud strategy and participate in the National Fraud Initiative;
- (g) keep Management Board and the Corporate Governance Group informed of key issues;
- (h) liaise with the Audit Commission and their appointed External Auditors; and
- (i) report to the Audit and Governance Committee on key issues arising from audits and on the performance of the Audit team.

Performance against the Audit Plan

8. Whilst the majority of planned audits, including all of the key audits of financial systems, were completed by 31 March 2014 eight audits have been rolled forward into the 2014/15 plan due partly to sickness within the audit team. The prioritisation of Audits was based on a risk evaluation and the audits that were rolled forward were considered to be of a lower priority.

9. During the year, 36 reports were issued to Management with the following assurance levels:

Assurance Level	2013/14	2012/13	2011/12
Full Assurance	4	1	3
Substantial Assurance	30	29	29
Limited Assurance	2	2	2
No Assurance	0	0	0

10. The recommendations made within the audit reports are given a priority rating of 1 to 3, with priority 1 being the highest. The priority 1 recommendations are monitored by the Corporate Governance Group to ensure that action is taken and these actions are reported quarterly to the Audit and Governance Committee. The recommendations are included in detail as appendices to the four quarterly reports to the Audit and Governance Committee.

Priority Level	Number Issued 2013/14	Number Issued 2012/13	Number Issued 2011/12
Priority 1 - High	12	6	17
Priority 2 - Medium	41	31	53
Priority 3 - Low	12	12	12

Additional Support Provided

11. To assist non financially trained managers' understanding of finance and governance issues, advice is regularly given by the Audit team and a training course is provided by an external supplier supported by the Director of Finance and ICT and the Chief Internal Auditor.

12. The level of assurance on the Council's systems of internal control that can be given by the Chief Internal Auditor takes into account:

- All audit work completed during 2013/14
- Follow up actions from previous years audits
- Management's response to findings and recommendations
- The resources available to deliver the audit plan
- The certification of Service Directors in their assurance statements
- Internal Audit performance in 2013/14
- The reliance placed on the work of Internal Audit by the External Auditor

- Relevant information in Audit Commission and National Fraud Authority reports, such as Protecting the Public Purse and Fighting Fraud Locally.

13. Taking all of the available information into account, in particular the audit work completed, it is considered by the Chief Internal Auditor that the Council has in place a satisfactory framework of internal control, which provides reasonable assurance regarding the efficient and effective achievement of its objectives in 2013/14.

Performance Management

14. The Internal Audit Team has local performance indicator targets to meet in 2013/14, as set out below:

	<i>Actual 2010/11</i>	<i>Actual 2011/12</i>	<i>Actual 2012/13</i>	<i>Target 2013/14</i>	<i>Actual 2013/14</i>
<i>% Planned audits completed</i>	82%	82%	85%	90%	88%
<i>% chargeable "fee" staff time</i>	66%	71%	69%	72%	74%
<i>Average cost per audit day</i>	£307	£213	£243	£245	£225
<i>% User satisfaction</i>	86%	89%	See note below	85%	See note below

15. The indicators are calculated as follows:

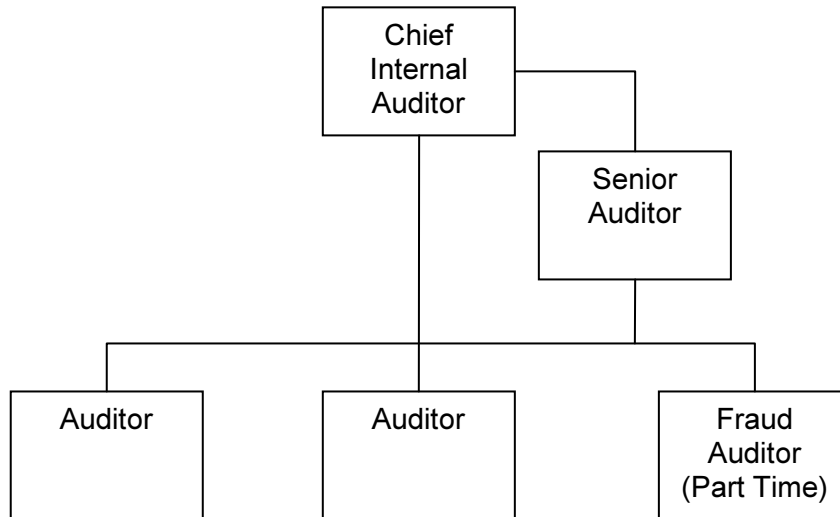
- (a) % Planned audits completed - a cumulative calculation is made based on the approved plan as amended for additional work (e.g. investigations) during the year;
- (b) % Chargeable fee time - a calculation is made based on reports produced from Internal Audit's time recording system;
- (c) Average cost per audit day - the calculation is based on the costs in the cost centre monitoring report divided by the number of fee earning days extracted from the time recording system; and
- (d) User satisfaction has been based on a customer survey form which was replaced by an electronic form for use from April 2013. The rate of return did not improve with the new simplified form so Management will be reminded of the importance of performance indicators and the need to complete and return the survey forms in a timely manner. Also research is currently being carried out to see what indicators other councils internal audits report that might be useful for EFDC to adopt.

16. The figures for planned audits completed of 88% (target 90%) is below target due long term sickness of a member of staff who has now returned to full time work and study days for a member of staff studying for the second level of the Institute of Internal Auditors professional qualification, having qualified at the first level.

17. These indicators are monitored by the Corporate Governance Group and the Audit and Governance Committee.

The Audit Team

18. The Team currently has an establishment of 4.4 full time equivalent (fte) Internal Auditors.
19. The establishment throughout 2013/14 is set out below:



Review of Effectiveness of Internal Audit

20. Regulation 6 of the Accounts and Audit Regulations 2011 requires the Council to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices. In EFDC the system of internal audit consists of the work of the Internal Audit Team, although supervisory processes in all Directorates provide a control and risk management function that could be defined as contributing to the system of audit. For this purpose, however, the work of the Internal Audit Team is seen as the focus of the review of effectiveness.

21. The Council is required to carry out an annual review of the effectiveness of its system of internal audit, as part of a wider review of the effectiveness of the system of governance. It is the responsibility of the Authority to undertake the review, and not the External Auditor. The Audit and Governance Committee is the most appropriate body to oversee the review of the system of Internal Audit, as it is independent of the management of the Authority.

22. The review should demonstrate that the Internal Audit service is:

- (a) meeting its aims and objectives;
- (b) compliant with the Public Sector Internal Audit Standards (PSIAS);
- (c) effective, efficient and continuously improving; and
- (d) adding value and assisting the Authority in meeting its objectives.

23. The objective of these measures is to ensure that the performance and effectiveness of the Internal Audit service improves over time, in terms of both the achievement of targets and the quality of service provided to the user.

24. Along with compliance with the Standards, the review is to agree the effectiveness of the service. The outcome of the review is independent confirmation that the opinion in the annual report of

the Chief Internal Auditor may be relied upon as a key source of evidence in the Governance Statement.

25. The Council's External Auditors, BDO LLP conduct a thorough review of the quality of Internal Audit's work on financial systems for 2012/13, in assessing the extent of reliance that can be placed on the work, in the context of their audit of the Council's Statutory Accounts.

26. The Annual Audit Letter 2012/13, issued by BDO in October 2013 stated that:

- an unqualified true and fair opinion on the financial statements was issued on 27 September 2013;
- the Council had implemented proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- the Annual Governance Statement was not misleading or inconsistent and complied with the relevant guidance from CIPFA/SOLACE;

27. The Council's Corporate Governance Group has undertaken the review of EFDC's Internal Audit Service in 2013/14 utilising the following main sources of evidence:

- The annual report and opinion of the Chief Internal Auditor;
- A review of the Internal Audit Service against Public Sector Internal Audit Standards;
- A review of Internal Audit monitoring reports for 2013/14;
- Any comments from the Chief Executive following consideration of individual audit report summaries;
- The role of the Corporate Governance Group monitoring the work of Internal Audit and any significant internal control issues raised in their reports;
- Consideration of significant corporate control issues highlighted in audit reports, discussed within the Management Board;
- Performance by Internal Audit against local performance indicators;
- The Internal Audit section of the Office of the Chief Executive Business Plan and work plans for 2013/14; and
- Assessment by the Audit Commission appointed auditors.

Summary of Findings

28. The Internal Audit Section can demonstrate that it has a good understanding of the functions of the Council and has achieved the Council's objective to identify improvements to its control systems. The performance of the Unit has remained close to its key targets and while the actual audits achieved (88%) fell short of the target (90%) for completion of the audit plan due to sickness during the year, all fundamental financial systems were examined and reported on. The Council's External Auditors found no inconsistencies in the work of Internal Audit when conducting their formal review of the Team's work as part of their review of the 2012/13 accounts.

29. The Internal Audit Section does not fully meet the Public Sector Internal Audit Standards introduced in April 2013 in that the quality assurance and improvement programme required by the standards is currently under development and will be reported to the Audit and Governance Committee later in the year with the Internal Audit Charter.

30. The work of the Audit and Governance Committee, with independent membership, makes an important contribution to the independent review of internal and external audit processes, as part of the Council's arrangements for securing further improvements in its systems of governance, including internal control. The Annual Report of the Audit and Governance Committee for 2013/14 demonstrated the range of issues addressed during the year.

31. In the opinion of the officers attending the Audit and Governance Committee, the continued support given by Members, in particular by insisting on timely and positive responses to audit recommendations, is invaluable in reinforcing the message of sound governance.

32. Having considered these issues, the Corporate Governance Group is satisfied that the Authority's system of Internal Audit was effective during 2013/14.

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:

Audit files and working papers.

Impact Assessments:

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 and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

Priority Ratings

Each audit finding will generate an audit recommendation. These recommendations will be prioritised in accordance with the following criteria:

Priority 1 – Observations refer to issues that are fundamental to the system of internal control. We believe that these issues have caused or will cause a system objective not to be met and therefore require management action as a matter of urgency to avoid risk of major error, loss, fraud or damage to reputation. Failure to apply a Financial Regulation or Contract standing Order will normally be in this category.

Priority 2 – Observations refer mainly to issues that have an important effect on the system of internal control but do not require immediate management action. System objectives are unlikely to be breached as a consequence of these issues, although Internal audit suggested improvement to system design and / or more effective operation of controls would minimise the risk of system failure in this area.

Priority 3 – Observations refer to issues that would if corrected, improve internal control in general and ensure good practice, but are not vital to the overall system of internal control.

Assurance levels:

The level of assurance to be applied will be based on the auditor's assessment of the extent to which system objectives are met, with the agreement of the Chief Internal Auditor. As a guide, the following triggers will be used, taking into account the level of risk of error, loss, fraud or damage to reputation.

Overall assignment rating	Level of assurance and definition Trigger (number of individual audit recommendations)
1 Full Assurance –	There is a sound system of control designed to achieve system objectives, and the controls are being consistently applied. Priority 3s or no audit recommendations.
2 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. Priority 2s and 1 Priority 1 (if assessed as a low risk).
3 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. Between 1 and four 1s and (usually) several Priority 2s.
4 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. Five or more Priority 1s.

Approved by the Audit and Governance Committee 15th November 2010

Internal Audit Plan 2013/14
Appendix 2

Key		Risk Identifier		
AC		Audit Commission		
FFS		Fundamental Finance System		
R no.		Risk No. in Corporate Register		
R		Reputation of Council		
Audit area	Audit type	Days allocated	Completed	Risk Identifier
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15	Completed	FFS
Sundry Debtors	system/follow up	15	Completed	FFS
Creditors	system/follow up	15	Completed	FFS
Treasury Management	system/follow up	15	Completed	FFS/R26
Budgetary Control (capital and revenue)	system/follow up	10	Completed	FFS
Risk Management and Insurance	system/follow up	15	Completed	FFS
Main Accounting and Financial Ledger	system/follow up	15	Completed	FFS
Housing Benefits	system/follow up	20	Completed	FFS
Council Tax	system/follow up	20	Completed	FFS/R27/AC
Business Rates	system/follow up	15	Completed	FFS/R27
Cash receipting and Income control	system/follow up	15	Completed	FFS
Provision for 'top up' testing	systems	30	Completed	FFS
ICT				
ICT Procurement	ICT	10	Completed	AC/R2
Access controls	ICT	10	Completed	FFS
Disaster recovery/business continuity	ICT	10	Completed	R8
TOTAL		230		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	System	20	Carried Fwd	R27
Countrycare	System	10	Completed	R
TOTAL		30		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	system	20	Completed	R20
Car Parking Contract	system	10	Completed	R27
North Weald airfield	establishment	15	Carried Fwd	R27
TOTAL		45		
HOUSING				
Housing Rent Collection and Arrears	system/follow up	20	Completed	FFS/R27
Right to Buy	system	10	Carried Fwd	AC
Housing Repairs Service	system	20	Completed	
Housing Contracts	system	20	Completed	R2

Private Sector Housing - Grants	system	15	Completed	
Norway House	Establishment	10	Carried Fwd	
TOTAL		95		
CORPORATE SUPPORT SERVICES				
Human Resources				
Payroll	System/follow up	20	Completed	FFS
Recruitment and Selection	Follow up	5	Completed	AC
Management of Sickness absence	Follow up	5	Completed	R15
Overtime and Committee Allowances	verification	10	Completed	R
Travelling & Subsistence Claims	verification	10	Completed	R
Car Mileage claims	verification	10	Completed	R
Estates/Facilities Management/Other				
Commercial Property portfolio	Follow up	5	Completed	R9
Reprographics	System	10	Carried Fwd	
Fleet Operations income	system	5	Completed	R27
Facilities Management Contracts	system	10	Carried Fwd	R2
Legal				
Debt recovery	Follow up	10	Carried Fwd	R27
TOTAL		100		
PERFORMANCE IMPROVEMENT				
Key and Local Performance Indicators	verification	15	Completed	R
Business Plans	verification	10	Completed	R
Equality Analysis	verification	10	Carried Fwd	R
FRAUD PREVENTION & DETECTION				
Contracts	fraud }	15	Completed	AC/R20
Procurement	fraud }	15	Completed	AC/R2
Council Tax Discounts	fraud	15	Completed	AC/R23
National Fraud Initiative (NFI)	fraud	20	Completed	R23
Data matching and analysis (IDEA software)	fraud	25	Completed	AC
CORPORATE				
Corporate Procurement	system/follow up	15	Carried Fwd	AC/R2
Gifts and Hospitality (Members & Officers)	system/follow up	10	Completed	R
Corporate Asset Register	system	5	Completed	FFS
Priority 1 Audit recommendations	follow up	10	Completed	R23
Governance Statement	management review	5	Completed	AC/R
TOTAL		170		
TOTAL DAYS ALLOCATED		670		
Contingency/Minor investigations		40	Completed	R23
Corporate/Service Advice		65	Completed	
TOTAL		775		

Report to the Audit and Governance Committee



Report reference: **AGC-004-2014/15**
Date of meeting: **30 June 2014**

**Epping Forest
District Council**

Portfolio: Finance

Subject: Audit and Governance Committee Annual Report 2013/14.

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) That the attached draft Annual Report for the Audit and Governance Committee for 2013/14 be considered; and**
- (2) That the Chairman and Vice-Chairman be authorised to agree the final draft in the event of any changes proposed at the meeting.**

Executive Summary:

The Committee is invited to comment on the draft. Officers will then make the necessary amendments to the report. It is suggested that any substantive changes are agreed with the Chairman and Vice Chairman prior to the submission of the report to Council.

Reasons for Proposed Decision:

This report is produced in accordance with the Terms of Reference for the Committee, which require an annual report to be submitted to Council each year.

Other Options for Action:

None.

Report:

1. This report is produced in accordance with the Terms of Reference for the Committee, which require an annual report to be submitted to Council each year.
2. The Committee is invited to comment on the draft. Officers will then make the necessary amendments to the report. It is suggested that any substantive changes are agreed with the Chairman and Vice Chairman prior to the submission of the report to Council.

Resource Implications:

These have been included in the individual reports to the Committee throughout the year.

Legal and Governance Implications:

These have been included in the individual reports to the Committee throughout the year.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group, Robert Thompson and Anthony Jarvis.

Background Papers:

Minutes of Audit and Governance Committee.

Impact Assessments:

Risk Management

If the adequacy of the arrangements for Risk Management were not considered and reported regularly a significant weakness in the overall governance arrangements could occur and remain undetected.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

EPPING FOREST DISTRICT COUNCIL

ANNUAL REPORT

OF THE

AUDIT AND GOVERNANCE COMMITTEE

2013/14

1. INTRODUCTION

- 1.1 This Annual Report of Epping Forest District Council's Audit and Governance Committee covers the municipal year 2013/14.
- 1.2 Membership of the Committee comprises three District Councillors and two co-opted independent members.
- 1.3 At the beginning of 2013/14 Committee membership comprised Councillors Antony Watts (Chairman), Sylvia Watson and Colin Finn; and co-opted members Melanie Peddle (Vice Chairman) and Robert Thompson.
- 1.4 Cllr Kane replaced Cllr Watson from the start of the municipal year. Cllr Finn passed away on 3 September 2013 and Cllr Lance Leonard was appointed as his replacement. When her term of office expired Ms Peddle did not seek re-appointment and Anthony Jarvis was appointed as a co-opted member with effect from 26 September 2013.
- 1.5 From then to the end of the year the Committee members were Councillors Antony Watts (Chairman), Helen Kane and Lance Leonard; and co-opted members Robert Thompson (Vice Chairman) and Anthony Jarvis.

2. TERMS OF REFERENCE

- 2.1 In summary, the purpose of the Committee is to provide assurance that:
 - 2.1.1 governance arrangements are adequate and operating effectively in practice; and
 - 2.1.2 where reviews of the governance arrangements have revealed gaps, action is planned that will ensure effective governance in future.
- 2.2 Full details of the Committee's roles and functions are set out in the terms of reference in Appendix 1.

3. MEETINGS

- 3.1 The Committee met five times during the year, as scheduled.
- 3.2 The Committee was supported by the Director of Finance and ICT and the Chief Internal Auditor, who attended the Committee meetings.
- 3.3 The Council's external auditors (BDO) are invited to attend meetings of the Committee and may, when they consider it appropriate, request a private meeting with the Committee, with other parties excluded.
- 3.4 A Corporate Governance Group (CGG), consisting of senior Council officers, chaired by the Chief Executive, meets regularly to consider governance issues across all of the Council's operations. This includes monitoring progress in

implementation of high priority audit recommendations. The Committee reviews the CGG minutes, to ensure effective overview of governance arrangements and to maintain awareness of topics discussed and any actions required.

- 3.5 When it considers necessary, the Committee requests senior officers to attend its meetings, to aid the Committee's understanding of relevant issues and explain delays in implementing audit recommendations, especially high priority ones.

4. THE YEAR IN REVIEW

4.1 Effectiveness of governance and risk management arrangements

- 4.1.1 Each year the Committee reviews the effectiveness of the Council's arrangements for risk management. At its June 2013 meeting the Committee considered a report on this topic and, after receiving satisfactory answers to a number of questions, concluded that the arrangements in force were effective.
- 4.1.2 At its April 2014 meeting the Committee was presented with a further report on the same subject, detailing a change in the process used to assess, record and monitor risks. The Committee raised some questions about the new process, the answers to which will be considered when the Committee conducts its next annual review at the first meeting of the 2014/15 municipal year.
- 4.1.3 The Committee approve the Annual Governance Statement ("AGS") which is included in the Council's Annual report and Statement of Accounts. At its June 2013 meeting the Committee reviewed the AGS for the year 2012/13. This was approved subject to inclusion of a statement that the Council had relied on information provided by external bodies in respect of its key partnerships.
- 4.1.4 In addition the considering the foregoing routine matters, the Committee asked to review a number of ad-hoc matters which it felt might raise governance issues.
- 4.1.5 The Committee was asked by the Council to conduct a process review concerning the approval of Officer delegation. Details of the process and possible options for changing it were presented to the Committee at its June 2013 meeting. Having considered the current process and options for change, the Committee recommended that the Council retain the current process.
- 4.1.6 In the proposed restructuring of the Council's directorates, it was planned that the reporting line for Chief Internal Auditor would be changed. The Committee had asked for reassurance that this would not compromise the independence of the Internal Audit function. The Chief Executive attended the Committee's November 2013 meeting to participate in the discussion. He emphasised that Internal Audit was, and would remain, a critical part of the Council's system of governance and internal control. The proposed change reflected the Chief Executive's view that the Chief Internal Auditor did not need to report directly to him to maintain the independence necessary for Internal Audit to perform its function. The Committee was satisfied that the changes would not diminish the independence of Internal Audit.

- 4.1.7 At its November 2013 meeting, the Committee was asked to comment on proposed changes to the operation of the Overview & Scrutiny function. The Committee endorsed the proposed changes.
- 4.1.8 The Committee had asked the Chief Internal Auditor to report on the effectiveness of the due diligence process as conducted by the Council before it entered into contracts with third parties. The report was considered at the November 2013 meeting. the Committee concluded that the due diligence process appeared to be robust and was working effectively.

4.2 Effectiveness of Internal Audit

- 4.2.1 At its June 2013 meeting the Committee approved the draft Internal Audit Plan for 2013/14. At the same meeting, having considered a report on the Corporate Governance Group's review of the matter, the Committee confirmed its satisfaction with the effectiveness of the system for internal audit.
- 4.2.2 The Committee receives quarterly reports from the Chief Internal Auditor on reviews undertaken by the internal audit team. These detail any internal control weaknesses identified and recommendations to correct them. Where a weakness is significant the recommendation may be assigned high priority (Priority 1). The timely implementation of Priority 1 recommendations is overseen by the Corporate Governance Group and monitored by the Committee.
- 4.2.3 The Committee received internal audit reports at its meetings in June 2013, September 2013, November 2013 and February 2014. The Committee noted that the number of internal audit reviews giving cause for material concern continued to be encouragingly low through the year.
- 4.2.4 Given the importance of effective internal audit to maintenance of effective governance, at its September 2013 meeting the Committee reviewed the business continuity plan for the Internal Audit Department, to be assured that it was robust enough to ensure that the internal audit function would continue to be effective following an event which caused the Council severe business disruption.

4.3 Statement of Accounts

- 4.3.1 At its September 2013 meeting, as required by its terms of reference, the Committee reviewed the Council's draft Statement of Accounts for 2012/13. The draft accounts were accompanied by the Director of Finance & ICT's detailed report explaining relevant matters. Having considered the draft accounts and accompanying report, and having offered a number of suggestions to enhance the information in the accounts, the Committee recommended the draft Statutory Statement of Accounts 2012/13 for adoption by the Council.

4.4 Treasury Management

4.4.1 In accordance with its terms of reference, the Committee reviewed the Council's Treasury Management Strategy and considered progress reports on the treasury management function and performance against prudential indicators. The Committee received the annual outturn report for 2012/13 at its September 2013 meeting and a mid-year report for 2013/14 at the meeting in November 2013. A report on the Council's treasury management strategy statement and its investment strategy for 2014/15 to 2016/17 was presented to the February 2014 committee meeting. The Committee considered that the arrangements for dealing with the risks associated with treasury management activity were adequate.

4.5 Relationship with External Auditors

4.5.1 During the year the Committee received a number of reports from the external auditors (BDO) who attended all five meetings:
Audit Plan 2012/13;
Planning Letter for 2013/14;
Audit Letter for 2012/13;
Fee Outturn Summary 2012/13;
Grants Claim & Returns Certification 2112/13;
Audit Plan 2013/14;
Planning Letter 2014/15.

In reviewing these with BDO the Committee considered the audit risks noted by the external auditors and material errors in the preparation of the Council's annual Statement of Accounts. The Committee noted the issues raised by the external auditors and accepted assurances from the Director of Finance & ICT that they were being dealt with.

4.5.2 The Committee believed that the relationship between BDO and the Council was effective.

4.6 Other external reports

4.6.1 To further inform its work, the Committee also looks at relevant reports from other external bodies.

4.6.2 During the year the Committee considered the Council's governance performance against national indicators contained in Grant Thornton's Local Governance review 2013 and was comfortable that the Council compared favourably with the report's indicators.

4.6.3 The Committee also considered a report "Protecting the Public Purse 2013", which was the result of the Audit Commission's annual fraud survey of all UK councils. The Committee was assured that the Council's fraud prevention and detection measures were adequate, although there would always be more that could be done, subject to cost.

5. CONCLUSION

- 5.1 As explained above, during the year the Committee considered a range of governance issues and offered guidance on improvements in internal control. The number of internal audits given limited assurance had remained low, which the Committee believes is evidence of sustained improvement in the Council's internal control environment.
- 5.2 The importance of an effective Audit and Governance Committee remains critical, given the continued financial pressures facing local government. The Committee must continue to ensure that the control environment, governance and risk management arrangements remain robust.
- 5.3 Overall, the Committee believes that it has fully and properly met its terms of reference during the municipal year 2013/14.

Background Information

Further information on the Audit and Governance Committee can be obtained from the Local Democracy / Committees / Audit and Governance Committee area of the Council's web site.

Terms of Reference

The Terms of Reference of the Audit and Governance Committee incorporate the following roles and functions for the Committee:

(a) To consider the effectiveness of the Council's risk management arrangements, control environment and associated anti-fraud and anticorruption measures.

(b) To seek assurances that action is being taken on risk related issues, identified by Auditors and Inspectors.

(c) To be satisfied that the Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.

(d) To approve the Council's Internal Audit Strategy Plan, Annual Audit Plan and monitor performance against all associated plans.

(e) To review summary Internal Audit reports and the main issues arising and seek assurance that action has been taken where necessary.

(f) To receive an Annual Report from the Chief Internal Auditor.

(g) To ensure that there are effective relationships between External and Internal Audit, Inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.

(h) To review financial statements, including the Council's Statement of Accounts, External Auditor's opinion and reports to Members, and monitor management action in response to the issues raised by External Audit.

(i) Review, and challenge where necessary, the actions and judgements of Management, in relation to the Council's Statement of Accounts, paying particular attention to:

(i) critical accounting policies and practices, and any changes to them;

(ii) decisions requiring a major element of judgement;

(iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;

(iv) significant adjustments resulting from the audit; and

(v) any material weakness in internal control reported by the Internal or External Auditor.

(j) Consider other reports of External Audit and inspection agencies which are relevant to the functions of the Committee.

(k) For the Committee to meet privately and separately at least once a year with the External Auditor and Chief Internal Auditor.

(l) To have the right to call any Members or officers of the Council as required.

(m) To consider performance and best value issues to the extent that they relate to the audit and control environment and risk management issues of the Council.

(n) To be responsible for the scrutiny of the Council's Treasury Management Strategy, including consideration of mid financial year and outturn reports.

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: **AGC-005-2014/15**

Date of meeting: **30 June 2014**

Portfolio: **Finance**

Subject: **Annual Governance Statement 2013/14**

Responsible Officer: **Brian Bassington (01992 564446).**

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

Recommendations/Decisions Required:

(1) The Committee is requested to consider, comment upon and approve the draft Governance Statement for 2013/14.

Executive Summary:

The Council's Statutory Statement of Accounts have been prepared in accordance with the Accounts and Audit Regulations 2011. Within the Regulations, and in accordance with defined 'proper practice', there is a mandatory requirement to publish an Annual Governance Statement (AGS). The arrangements are designed to provide the Authority with assurance regarding the adequacy of its governance arrangements, and identifying where those arrangements need to be improved.

Reasons for Proposed Decision:

To provide the Committee with the opportunity to scrutinise the draft Governance Statement.

Other Options for Action:

No other options.

Report:

1. In accordance with good practice the governance statement should include the following information:

- (a) an acknowledgement of responsibility for ensuring there is a sound system of governance;
- (b) an indication of the level of assurance that the systems and processes that comprise the authority's governance can provide;
- (c) a brief description of the key elements of the governance framework, including reference to group or partnership activities where those activities are significant;
- (d) a brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements; and
- (e) an outline of the actions taken, or proposed, to deal with significant

governance Issues.

2. The production of an AGS enables the Authority to use the review process positively and proactively to deliver assurance about governance arrangements within the Authority to stakeholders, and to develop better arrangements where the review finds areas in need of improvement. The process involves a comparison of achievements against the principles set out in the Authority's Local Code of Governance, and supports an intention and commitment to provide good governance.

3. The Annual Governance Statement is the product of an annual review by the Authority, of the effectiveness of the Council's governance arrangements. This includes an assessment of the effectiveness of its internal control arrangements. The AGS is published with the Statement of Accounts.

4. The AGS is derived partly from detailed reviews by all Service Directors of the effectiveness of the governance arrangements operating within their Directorate, by reference to a detailed checklist incorporating the key elements within the Local Code of Governance. As part of this process Directors have considered available evidence to demonstrate that these governance systems and processes are working effectively and as intended. All Directors have provided assurance statements indicating the level of assurance that can be placed on the effectiveness of key controls operating at service level. These statements are intended to be a balanced representation of the arrangements in place during the year, and to highlight those areas where improvement is required. Significant issues are commented upon in the Governance Statement.

5. Internal Audit focuses its work on providing an independent and objective opinion on the Council's internal controls, and submits an annual report and quarterly monitoring reports to this Committee, where significant audit findings and improvement areas are highlighted. The Chief Internal Auditor is required to include in the annual audit report an opinion on the overall adequacy and effectiveness of the Council's internal control environment, drawing attention to any issues that are relevant to the preparation of the Governance Statement. The annual audit report for 2013/14 is included on the agenda for this meeting, and includes an opinion that satisfactory assurance can be given regarding the adequacy of the Council's internal control system in 2013/14.

Resource Implications:

From existing resources.

Legal and Governance Implications:

No specific implications.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group and Service Directors.

Background Papers:

CIPFA Internal Audit Code of Practice, Audit reports and files.

Impact Assessments:

Risk Management

The preparation of the Annual Governance Statement is a key part of the Council's governance arrangements in demonstrating that there is a continuous review of the Council's internal control and risk management systems.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

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EPPING FOREST DISTRICT COUNCIL

Annual Governance Statement 2013-14

1. Scope of responsibility

Epping Forest District Council (EFDC) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council has approved and adopted a Code of Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government and forms part of the Councils Constitution. A copy of the Code is on our website at www.eppingforestdc.gov.uk. This statement explains how the Council has complied with the Code and also meets the requirements of Regulation 4 of the Accounts and Audit Regulations 2011, in relation to the publication of a Statement on Internal Control.

2. The purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values for the direction and control of the Council and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of the Governance Framework and is designed to manage risk to a reasonable level. It cannot eliminate all risks of failure to achieve policies, aims and objectives, and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives. It is also responsible for evaluating the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Council's Code of Governance recognises that effective governance is achieved through the following core principles.

- (i) focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area.
- (ii) Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- (iii) promoting values for the Council and demonstrating good governance through upholding high standards of conduct and behaviour.
- (iv) taking informed and transparent decisions which are subject to effective scrutiny and management of risk.
- (v) developing the capacity and capability of Members and officers to be effective.
- (vi) engaging with local people and other stakeholders to ensure robust public accountability.

The table below summarises the Council's Governance Framework (which includes the system of internal control) for the year ending 31st March 2014 and up to the date of approval of this Statement and the Statement of Accounts.

The Governance Framework	
	The key elements of the Council's governance arrangements for 2013/14 were:
1	A corporate plan covering 2011-2015, setting out the Council's priorities and defining the goals to be achieved
2	The Constitution, which is revised each year
2.1	sets out the Council's decision-making framework
2.2	gives a clear definition of the roles and responsibilities of members, committees, and the statutory officers (Head of the Paid Service, Section 151 Officer and Monitoring Officer)
2.3	includes a scheme of delegation of responsibility, financial regulations and contract standing orders
2.4	defines codes of conduct for members and officers, and a protocol for how the two work together.
3	The Council facilitates policy and decision making via a Cabinet Structure with Cabinet Member portfolios.
4	There are Standing Scrutiny Panels to cover key policy areas, Task and Finish Panels to undertake specific reviews and a co-ordinating Overview and Scrutiny Committee.
5	A Standards Committee.
6	An Audit and Governance Committee
7	A Management Board consisting of the Chief Executive, Deputy Chief Executive and Directors
8	A Corporate Governance Group consisting of the Chief Executive, Deputy Chief

	Executive, Section 151 Officer, Monitoring Officer, Deputy Monitoring Officer and The Chief Internal Auditor, meeting monthly
9	A Corporate Risk Strategy managed by a Risk Management Group meeting quarterly
10	Working Group on Financial Regulations, Contract Standing Orders and Delegated Authorities
11	A standard committee report format that includes specific consideration of all legal, financial, professional and technical considerations
12	A Medium Term Financial Strategy which informs service planning and budget setting,
13	A compliments and complaints procedure
14	A risk-based approach to internal audit, emphasising the need for sound control and good value
15	A robust whistle blowing policy and process, refreshed in 2011-12, along with supporting documents outlining the Council's zero tolerance approach to fraud and corruption
16	Contribution to the delivery of the Sustainable Community Strategy for the District through active participation on One Epping Forest, formerly the Local Strategic Partnership, and the alignment of the Key Themes of the Corporate Plan 2011/15 with the Community Strategy.

3. Review of effectiveness

The Council is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the various sources noted below.

Directors governance statements, which provide appropriate management assurance that the key elements of the system of internal control are operating effectively;

Documentary evidence of processes, procedures and standards:

The Chief Internal Auditor's annual opinion on the Council's control environment, delivered to the Audit and Governance Committee, as the body charged with governance. Audit reports issued along with the assurance ratings of full, substantial, limited or no assurance, on the adequacy and effectiveness of the Council's control environment, particularly in the key financial systems;

The work undertaken by the External Auditor reported in their annual audit and inspection letter and other review reports;

Significant governance issues from previous years;

Significant governance Issues from 2013/14.

In the Annual Governance Statement for 2012/13 we reported two significant governance issues relating to the Housing Repairs Service and Housing and Council Tax Benefits. Both of these issues had been resolved by the time that statement was published.

In preparing this statement and reviewing the effectiveness of the council's governance arrangements, we have identified areas for improvement which are set out in the table below, together with the steps to be taken to address them.

No.	Issue	Management response
1	<p>ICT Procurement During a routine internal audit, it was observed that there had been departures from Contract Standing Orders in respect of monitoring expenditure with individual suppliers, and Financial Regulations, which included inventory and invoice control.</p>	<p>Action taken Reports have been developed and regular monitoring put in place. Relevant staff have been reminded of the requirements of the Financial Regulations regarding inventory control and invoice certification.</p>
2	<p>Car Parking Income As part of an internal audit review of the contracted service it was identified that there were limitations in the information supplied by North Essex Parking Partnership (NEPP) which affected the monitoring and reconciliation of the income. It should be noted that based on the testing of the system of key controls in place at EFDC, it was considered that the processes are sound and are in place for when the full data is made available from NEPP.</p>	<p>Action to be taken This issue is in the process of being addressed by management and by the internal audit sections of the Councils which are members of the NEPP. The introduction of new parking meters will greatly improve the monitoring of the pay and display income received.</p>

We propose over the coming year to continue to improve matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for any improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed

Glen Chipp
 Chief Executive

Signed

Councillor Chris Whitbread
 Leader of the Council

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