

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



**Epping Forest  
District Council**

**Report reference:**

**Date of meeting: 15 July 2021**

**Portfolio: Leader of the Council**

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

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

**Democratic Services: Laura Kirman (01992 564273)**

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## **Recommendations/Decisions Required:**

- (1) The Committee is requested to note the following report for 2020/21 and the assurance level given;**
- (2) Agrees that for the 12 months ended 31 March 2021, the Council has operated adequate and effective governance, risk management arrangements and control processes. The exception to this, being disaster recovery and the Council is already addressing the weaknesses identified.**

## **Executive Summary:**

This report is presented in support of the Internal Audit opinion on the adequacy of Epping Forest District Council's (EFDC) internal control environment and provides a summary of the work undertaken by Internal Audit for 2020/21.

The Accounts and Audit Regulations 2015 include a requirement for the Council to carry out an annual review of the effectiveness of its system of internal audit as part of the wider review of the effectiveness of the system of governance. This report supports such a review.

## **Reasons for Proposed Decision:**

To support the Committee in its review of the Annual Governance Statement

## **Other Options for Action:**

No other options.

## **Report:**

### Introduction

This document summarises the results of internal audit work during 2020/21 and, as required by the Accounts and Audit (England) Regulations 2015, gives an overall opinion of the Council's governance, risk management and control framework.

### Overall Opinion

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

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

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

- All audits undertaken during the year;
- Any follow-up action taken in respect of audits from previous periods;
- High priority recommendations not accepted by management or acted upon (there were none) and the consequent risks;
- The effects of any significant changes in the Council's objectives, activities or systems (there were none despite the pandemic);
- Matters arising from previous reports to the Audit and Governance Committee;
- Any limitations which may have been placed on the scope of internal audit (there have not been any);
- Whether there have been any resources constraints which have impinged on the Chief Internal Auditor's ability to meet the full audit needs of the Council (the pandemic led to a revised Internal Audit plan and operational disruptions impacted on the access of Internal Auditors to key staff and information resulting in inefficiency and delayed outputs); and
- The results of work performed by other assurance providers including the work of the External Auditors.

2020/21 was an exceptional year as the Covid-19 pandemic was prevalent throughout the financial year. This led to the Audit and Governance Committee agreeing to a reduced Internal Audit programme of works at their June 2020 meeting. However, it is the Internal Audit Manager's opinion that sufficient work has been undertaken and sufficient assurances obtained to support their annual opinion, both through its formal assurance audits and advisory work.

**Based upon the results of work undertaken during the year it is the Chief Internal Auditor's overall opinion that the Council has adequate and effective governance, risk management arrangements and control processes. Where there have been significant issues these have been accepted by Management and promptly corrected. The exception to this, being disaster recovery and the Council is already addressing the weaknesses identified.**

**For all other areas, key governance, risk management and internal control arrangements have been maintained and have not deteriorated despite the Covid-19 pandemic.**

### Context

This report outlines the work undertaken by Internal Audit covering the period 1 April 2020 to 31 March 2021.

Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements i.e. the control environment. Internal Audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. On behalf of the Council, Internal Audit reviews, appraises and reports on the efficiency, effectiveness and economy of these arrangements.

Internal Audit is required by professional standards to deliver an annual internal audit opinion and report to those charged with governance, timed to support the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

The primary role of Internal Audit is to provide assurance to the Council and ultimately the taxpayers that the Council maintains an effective control environment that enables it to manage its significant organisational risks and has appropriate governance arrangements to support this. Internal Audit helps the Council achieve its objectives and provide assurance that effective and efficient operations are maintained. The assurance work culminates in an annual opinion on the adequacy of the Council's control environment which feeds into the Annual Governance Statement.

#### Internal Audit Work during 2020/21

The 2020/21 Internal Audit Plan was prepared based on the risks associated with the Council's objectives in consultation with key officers and took into account:

- Knowledge and experience accumulated in Internal Audit, including the results of previous reviews
- A review of audit themes against the Corporate risk register and Council priorities
- The work of other assurance providers both internally and externally
- The external environment including economic climate, government initiatives such as welfare reform and changes in funding

Due to the pandemic the focus of Internal Audit's work was significantly changed and a revised plan for 2020/21 adopted and approved at the June 2020 Audit and Governance Committee meeting. Both the original and revised plan were designed to allow sufficient audit coverage to support the overall opinion for the Council. Despite the changes there has been sufficient internal audit coverage in order to give this opinion.

At the end of each assurance review a report is issued giving a formal audit assurance rating. This rating is based on an assessment of the key management arrangements and internal controls in place and measured using the following scale:

- 'Substantial' assurance – Overall, there is a sound system of control. Any weaknesses which put system/service objectives at risk will be minor and does not lead the Council to significant risk exposure.
- 'Moderate' assurance – Basically sound control, with areas of weakness, which put system/service objectives at risk. (Any high priority recommendations will prevent this level of assessment).
- 'Limited' assurance – There are significant weaknesses in more than one key control

- area, which could put system/service objectives or the Council at risk.
- ‘No’ assurance – There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk.

### Summary of Assurance Work

A total of eight assurance reviews were completed and overall the audits are positive with the majority being given Substantial or Moderate assurance. Swift action is being taken by the Council regarding the two limited assurance reports which relate to ICT (Area Storage Network and IT Disaster Recovery).

The table below provides a comparison between 2020/21 and previous three financial years.

Whilst the table highlights that the number of reports issued has decreased when compared with previous years this has been as a result of Internal Audit undertaking more advisory work than previously, especially as a result of Covid-19 as well as undertaking fewer audits but completing them in greater depth. For example, there were 12 audits planned in 2020/21 compared to 18 in 2019/20. It is not an indication that the Council’s control framework has deteriorated.

Assurance rating	2020/21	2019/20	2018/19	2017/18
Substantial	3	5	14	13
Moderate	3	3	9	6
Limited	2	4	1	0
No	0	0	1	0
<b>Total</b>	<b>8</b>	<b>12</b>	<b>25</b>	<b>19</b>

Appendix A sets out work carried out by the Internal Audit service during the year in narrative form and compares this to the revised plan agreed by the Audit and Governance Committee June 2020. This summary includes individual audit reviews, consultancy and advice and other Internal Audit engagement activities with the Council.

Appendix B lists the individual audit reports issued as part of the 2020/21 Plan.

### Tracker process

Recommendations are categorised according to the risks they are intended to mitigate. Categorising recommendations also assists managers in prioritising improvement actions. Recommendation categories, in order of priority are high, medium and low depending on the level of risk involved.

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

The process continues to work well with good commitment by managers to ensure audit recommendations are implemented or there are good business reasons why there has been a delay. There are no significant issues to report regarding the implementation of audit recommendations.

### Other Sources of Assurance

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

*Special investigations:* Internal Audit and the Corporate Fraud Team investigate any allegations of fraud and suspected irregularity although there are separate arrangements for reporting, investigating and dealing with benefits fraud. The Audit and Governance Committee would be notified of any significant internal frauds (estimated at more than £10,000). There have been none for 2020/21 fulfilling this criterion; the same as the previous three years. There were no reported whistleblowing allegations.

*Advice:* Internal Audit is most effective when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems. This includes Internal Audit represented on key business groups which in 2020/21 included:

- The Corporate Governance Group
- Risk Management Group
- Strategic Information Governance Group and the Information Assets Owners Group
- Strategic Safety Group and the Operational Safety Group
- IT Portfolio Governance

Throughout the year Internal Audit has been assisting with an exercise to develop a schedule of responsibilities for each layer of the management spine, reflecting the DMA (Decision Making Accountability) principles used to design the Council's structure. This is to ensure there is clarity and consistency of decision making at each management level and decision making is attached to the role and not the individual. Discussions are ongoing with Service Managers to align processes with the DMA which will maintain operational effectiveness whilst ensuring accountability.

Internal Audit is facilitating discussions on the Council's approach to the use of purchase cards following the decision to use these routinely for low level spend. A project group has now been set up to take this forward.

In addition, Internal Audit raises awareness of control issues throughout the Council particularly through the update of key governance documents and the co-ordination and analysis of service assurance statements which feeds into the Annual Governance Statement.

*Covid-19 related work:* Internal Audit undertook a number of activities as a direct response to Covid-19 being:

- Business Grants: Internal Audit carried out due diligence checks on all relevant Covid-19 grant applications using the governments Spotlight tool, following up any discrepancies identified. Where appropriate, other checks such as review of social media were undertaken to verify eligibility under the various government schemes. Advice was also provided on the BEIS fraud risk assessment and post payment assurance plan required by the Department for Business, Energy and Industrial Strategy.
- Finance related work: Internal Audit resource was used to assist Finance with the reconciliation of the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund payments to ensure payments are properly accounted for and to assist with returns to central government. As Finance resources continued to be stretched because of Covid-19 Internal Audit resource was diverted to update the Revenue Account 2020/21 form submitted to central government and review the processes around the capitalisation of salaries costs within Housing.

- Accounts Payable: Internal Audit advised on processes and controls around Accounts Payable where these had been flexed to allow for staff working remotely. Additional work has included a review of Marketplace purchase orders and invoice payments to check for duplicates and compliance with revised processes.

*Anti-Fraud and Corruption work:* The Corporate Fraud Team reports directly to the Chief Internal Auditor and ensures a corporate approach to anti-fraud activities as well as ensuring synergies with the Internal Audit team. For example, the Council participates in the National Fraud Initiative (NFI), which is a data matching exercise run every two years. The exercise seeks to identify fraud spanning public bodies and Internal Audit is the key point of contact and facilitates and supports the Council's involvement. Internal Audit works in tandem with the Corporate Fraud Team to look into possible internal (Officer) fraud.

### Effectiveness

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

Following an external assessment, which is required every five years, the service was confirmed as fully compliant in November 2016 and this is still the case as there have been no significant changes in the way the Internal Audit service is delivered or operates, and the Chief Internal Auditor has not taken on any additional responsibilities that could compromise the service's independence and objectivity. An EQA is planned July 2021, the results of which will be reported to the November 2021 Audit and Governance Committee.

The regular progress reports presented to the Audit and Governance Committee provide Members with the opportunity to monitor Internal Audit's output and effectiveness. Feedback on the implementation of recommendations also provides evidence of the degree of influence Internal Audit has on changes to strengthen the control framework for the Council.

Performance indicators are in place to monitor service performance and reported at each Audit and Governance Committee with a summary for the year presented below:

Aspect of Service	Performance Indicator	Target	2020/21 Year End outcome	2019/20 Year End outcome
Audit Plan	Achievement of the Annual Plan	Sufficient internal audit work in order that the Chief Internal Auditor can give their annual opinion	Achieved	Achieved
Internal Audit processes	<ul style="list-style-type: none"> <li>• Issue of draft report after closing meeting</li> <li>• Issue of final report after agreement with client to draft</li> </ul>	<ul style="list-style-type: none"> <li>• 10 working days</li> <li>• 5 working days</li> </ul>	<ul style="list-style-type: none"> <li>• 5 days</li> <li>• 4 days</li> </ul>	<ul style="list-style-type: none"> <li>• 10 days</li> <li>• 3 days</li> </ul>
Effective management engagement	<ul style="list-style-type: none"> <li>• Management responses within 10 working days of draft report</li> </ul>	<ul style="list-style-type: none"> <li>• 10 working days</li> </ul>	<ul style="list-style-type: none"> <li>• 6 days</li> </ul>	<ul style="list-style-type: none"> <li>• 19 days *</li> </ul>

	<ul style="list-style-type: none"> <li>Implementation of agreed audit recommendations</li> </ul>	<ul style="list-style-type: none"> <li>Within agreed timescales</li> </ul>	<ul style="list-style-type: none"> <li>Largely met (as reported by tracker)</li> </ul>	<ul style="list-style-type: none"> <li>Largely met (as reported by tracker)</li> </ul>
Continuous Professional Development (CPD)	Auditors maintain and improve their knowledge, skills and other competencies through directed and self-directed activities.	40 hours of CPD activity per auditor	Achieved	Achieved

\* In 2019/20 there were a number of complex reports or wider reaching recommendations made that took time to finalise to ensure agreed action plans to correct weaknesses identified were right for Epping Forest and were realistic and achievable.

### **Resource Implications:**

Within the report

### **Legal and Governance Implications:**

Within the report

### **Safer, Cleaner and Greener Implications:**

No specific implications

### **Consultation Undertaken:**

Corporate Governance Group

### **Background Papers:**

NB: There are papers referred to in the preparation of the report which are not attached as appendices, but which are available for public or Councillor study.

Public Sector Internal Auditing Standards (PSIAS) 2017  
Accounts and Audit Regulations (England) 2015

### **Risk Management:**

Internal Audit has a primary objective to provide an independent and objective opinion on the adequacy of the Council's control environment, including its governance and risk management arrangements. The audit reports referred to in this report assist managers to determine the adequacy and effectiveness of the arrangements in place in their services.

### **Equality Analysis:**

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided at Appendix C to the report.