

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Date of meeting: 27 July 2023

Portfolio: Leader of the Council

Subject: Annual Report of the Chief Internal Auditor

Responsible Officer: Sarah Marsh (01992 564446).

Democratic Services: Laura Kirman

Recommendations/Decisions Required:

- (1) The Committee is requested to note the following report for 2022/23 and the assurance level given.**
- (2) The Committee agrees that for the 12 months ended 31 March 2023, the Council has operated adequate and effective governance, risk management arrangements and control processes.**

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 2022/23.

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 2022/23 and, as required by the Accounts and Audit (England) Regulations 2015, gives an overall opinion of the Council's governance, risk management and control framework.

Overall Opinion

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

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

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

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

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

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.

Context

This report outlines the work undertaken by Internal Audit covering the period 1 April 2022 to 31 March 2023.

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 2022/23

The 2022/23 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.
- Harmonisation of themes with the Borough of Broxbourne Council and Harlow District Council to enable benchmarking and sharing of good practice.

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 – A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
- 'Reasonable' assurance (previously called 'moderate' assurance) – There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put, at risk, the achievement of objectives in the area audited (Any high priority recommendations will prevent this level of assessment).
- 'Limited' assurance – Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
- 'No' assurance – Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Summary of Assurance Work

A total of eight assurance reviews were completed and overall, the audits are positive with most being given Substantial or Reasonable assurance. Prompt action has been taken by management regarding the three limited assurance reports, which relate to Cyber Security, Feeder Systems and Business Reconciliations and Qualis Management KPIs and Payment Mechanisms.

The table below provides a comparison between 2022/23 and previous three financial years.

Assurance rating	2022/23	2021/22	2020/21	2019/20
Substantial	4	5	3	5
Reasonable	1	4	3	3
Limited	3	0	2	4
No	0	0	0	0
Total	8	9	8	12

Appendix A sets out work carried out by the Internal Audit service during the year in narrative form and compares this to the plan agreed by the Audit and Governance Committee March 2022. 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 2022/23 Audit Plan and number of recommendations made by risk priority.

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 of 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 2022/23 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 representation on key business groups which in 2022/23 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
- Portfolio and Steering Group

Internal Audit has provided advice around the implementation of purchase cards to ensure there are adequate controls to minimise the risk to the Council of misuse, and ensure processes are efficient.

Internal Audit has also helped the Council move forward with their risk management processes and information governance arrangements.

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

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

In 2021 the Internal Audit function underwent an External Quality Assessment (EQA), which, in line with the PSIAS, must be conducted every five years by a qualified, independent assessor from outside the Council. The EQA, which covered all three councils in the shared service, confirmed the Internal Audit service conforms to the Public Sector Internal Audit Standards and the results communicated to the November 2021 Audit and Governance Committee. The resultant quality assurance and improvement programme from that review has been completed.

The EQA exercise was repeated during March and April 2023 as St Albans City and District Council joined the shared service in November 2022 and they did not have an up to date EQA. The outcomes from this EQA are being finalised with the assessor.

This report confirms there have been no impairments to the independence and objectivity of the Internal Audit service during the year.

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	Year End 2022/23	Year End 2021/22
Audit Plan	Achievement of the Annual Plan	Sufficient internal audit work in	Achieved	Achieved

		order that the Chief Internal Auditor can give their annual opinion		
Internal Audit processes	<ul style="list-style-type: none"> • Issue of draft report after closing meeting • Issue of final report after agreement with client to draft 	<ul style="list-style-type: none"> • 10 working days • 5 working days 	<ul style="list-style-type: none"> • 4 days • 2 days 	<ul style="list-style-type: none"> • 2 days • 2 days
Effective management engagement	<ul style="list-style-type: none"> • Management responses within 10 working days of draft report • Implementation of agreed audit recommendations 	<ul style="list-style-type: none"> • 10 working days • Within agreed timescales 	<ul style="list-style-type: none"> • 17 days * • Largely met (as reported by tracker) 	<ul style="list-style-type: none"> • 12 days * • Largely met (as reported by tracker)
Continuous Professional Development (CPD)	Auditors maintain and improve their knowledge, skills, and other competencies through directed and self-directed activities.	40 hours of CPD activity per auditor	Achieved	Achieved

* Internal Audit continues to work closely with Service Directors and Service Managers to ensure recommendations are owned and have realistic implementation dates. For more complex reports or wider reaching recommendations this will take time to finalise to ensure agreed action plans to correct weaknesses identified are right for Epping Forest and are realistic and achievable.

Internal Audit staff participate in Continuous Professional Development including keeping abreast of best professional practice. Members of the Internal Audit team participate in various networking groups including the Essex Audit Group, the Midland Audit Group, and the London Audit Group, where speakers on topical issues give presentations. There are also close working relationships with other councils.

Resource Implications:

Within the report

Legal and Governance Implications:

Within the report

Safer, Cleaner and Greener Implications:

No specific implications

Consultation Undertaken:

Corporate Governance Group

Background Papers:

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

Public Sector Internal Auditing Standards (PSIAS) 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.