

Internal Audit Progress Report

October 2019

Epsom & Ewell Borough Council



**Southern Internal  
Audit Partnership**

Assurance through excellence  
and innovation

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## 1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

*'Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'*

The standards for 'proper practices' are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].

The role of internal audit is best summarised through its definition within the Standards, as an:

*'Independent, objective assurance and consulting activity designed to add value and improve an organisations' operations. 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'.*

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations' objectives.

**2. Purpose of report**

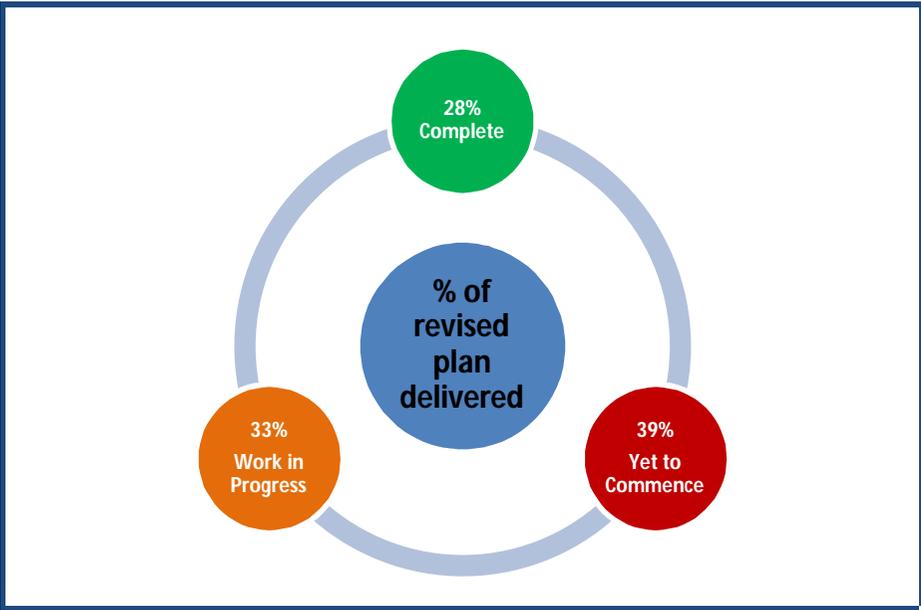
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to ‘Senior Management’ and ‘the Board’, summarising:

- The status of ‘live’ internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor’s annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. Assurance opinions are categorised as follows:

- Substantial** A sound framework of internal control is in place and is operating effectively. No risks to the achievement of system objectives have been identified.
- Adequate** Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified.
- Limited** Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.
- No** Fundamental weakness identified in the framework of internal control or the framework is ineffective or absent with significant risks to the achievement of system objectives.

3. Performance dashboard



Compliance with Public Sector Internal Audit Standards	
	<p>An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015. The report concluded:</p> <p><i>'It is our view that the Southern Internal Audit Partnership 'generally conforms' to all of the principles contained within the International Professional Practice Framework (IPPF); Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).</i></p> <p>In accordance with PSIAS, a further self assessment was completed in April 2019 concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.</p>

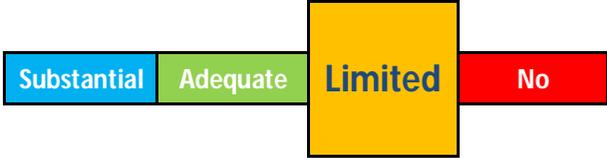
#### 4. Analysis of 'Live' audit reviews

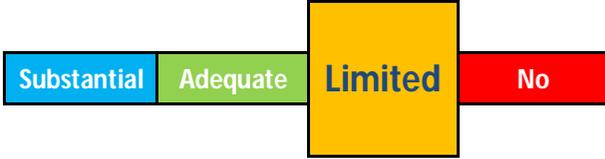
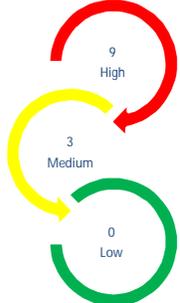
Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions ('High Priority')					
				Total Actions Reported	Not Yet Due	Complete	Overdue		
							L	M	H
Fraud and Irregularities	06/08/2019	HofPPG	Adequate	4 (0)	1 (0)	2 (0)	1	-	-
Contract Management	09/08/2019	HofPPG	Limited	5 (1)	2 (1)	1 (0)	2	-	-
Air Quality Monitoring	16/09/2019	HofH&C	Limited	7 (1)	5 (0)	2 (1)	-	-	-
Accounts Receivable and Debt Management	15/10/2019	CFO	Limited	12 (9)	11 (8)	1 (1)	-	-	-

Audit Sponsor			
CFO	Chief Finance Officer	HofP	Head of Planning
HofD&ST	Head of Digital and Service Transformation	HofOS	Head of Operational Services
HofHR&O	Head of HR and OD	HofP&R	Head of Property & Regeneration
HofPPG	Head of Policy, Performance & Governance	HofH&C	Head of Housing & Community
CLO	Chief Legal Officer		

**5. Executive Summaries of reports published concluding a ‘Limited’ or ‘No’ assurance opinion**

<p><b>Contract Management</b></p>		
<p><b>Head of Service Sponsor:</b></p> <p><b>Head of Policy, Performance &amp; Governance</b></p> <p><b>Final Report Issued:</b></p> <p><b>9<sup>th</sup> August 2019</b></p>	<p><b>Assurance opinion:</b></p>	<p><b>Management Actions:</b></p>
<p><b>Summary of key observations:</b></p> <p>The Council were found to retain a Contract Register that is publicly available and records contract end dates, providing a flag for contract renewal going forward, however, there was some disparity between the designated lead officer as denoted in the Contracts Register to that at an operational level. Additionally, it was apparent through review of expenditure from the corporate creditors system not all contracts are currently recorded in the Contracts Register</p> <p>Omissions in the current Contracts Register has resulted in non-compliance with the Local Government Transparency code that requires local authorities to publish details of any contract, commissioned activity, purchase order, framework agreement and any other legally enforceable agreement with a value that exceeds £5,000.</p> <p>It was evident in a majority of cases reviewed that regular performance meetings were scheduled and recorded with contractors and where applicable KPI's used to monitor contract performance, however, it was concerning to find that a signed copy of the original contract could not be traced within the legal archive for all contracts tested.</p> <p>A Contract Manager has now been appointed to fulfil a corporate support role that will provide direction, guidance and consistency on good contract management.</p>		

<p><b>Air Quality Monitoring</b></p>		
<p><b>Head of Service Sponsor:</b></p> <p><b>Head of Housing &amp; Community</b></p> <p><b>Final Report Issued:</b></p> <p><b>16<sup>th</sup> September 2019</b></p>	<p><b>Assurance opinion:</b></p> 	<p><b>Management Actions:</b></p> 
<p><b>Summary of key observations:</b></p> <p>Management and operational roles and responsibilities for air quality management have been clearly assigned to the Environmental Health Manager. However, there is no regular reporting to the senior leadership team on air quality monitoring, and no senior management sign off or checking of the Annual Status Report (ASR) before this is submitted to DEFRA.</p> <p>The 2019 Annual Status Report (ASR) has not been submitted to DEFRA in accordance with the required deadline of 30 June 2019. It was also found that some DEFRA recommendations from the 2016 approval report have not been actioned as part of the 2017 ASR, and this report is not passed to senior management for review. Further to this, sufficient workings and evidence to support the application of the distance fall of calculation to three air quality monitoring areas in the 2018 ASR have not been retained to be able to substantiate how these figures were determined.</p> <p>An Air Quality Action Plan (AQAP) for Ewell high street continues to be in place and published on the local authority webpages, where monitoring data has identified this as a poor air quality area, however, actions from the AQAP are not being regularly reviewed by a steering group as recommended by DEFRA, despite intentions to do so being stipulated in the 2010 published plan on the Epsom &amp; Ewell internet pages.</p> <p>Monthly laboratory data analysis is accurately transposed into the annual air quality monitoring data spreadsheet and an annualised average has been accurately calculated. However, it was found that exposure detail forms that record the details of the exposure period for each diffusion tube and the subsequent laboratory reports have not been retained and made available, as a record of data used in the air quality analysis. Similarly, due to a lack of records, it is unclear when diffusion tubes have been changed and whether this was in line with the diffusion tube calendar. There are also no stocks of diffusion tubes if the laboratory fails to send these to the Council in time for the monthly replacement of tubes.</p>		

<b>Accounts Receivable and Debt Management</b>		
<p><b>Head of Service Sponsor:</b></p> <p><b>Chief Finance Officer</b></p> <p><b>Final Report Issued:</b></p> <p><b>15<sup>th</sup> October 2019</b></p>	<p><b>Assurance opinion:</b></p> 	<p><b>Management Actions:</b></p> 
<p><b>Summary of key observations:</b></p> <p>The council were found to be raising invoices in a timely manner and income received is promptly matched against the relevant invoice. However, the Daily Cash Book Reconciliation spreadsheet is not being fully completed daily, nor has there been any monthly sign offs for the bank reconciliation since April 2019.</p> <p>It was evident that monthly Aged Debt Detail reports are run, which are then sent to the relevant departments for actioning to recover the debt. Evidence was also seen of emails from some departments advising of actions taken to recover the debt. However, whilst reminders and final reminders have been issued to outstanding debtors, for those debts that remain outstanding, after final reminders are sent, no formal legal debt recovery actions (i.e. court summons') have been progressed by the Exchequer and Legal teams since October 2018. This is due to the ongoing review of the financial thresholds for recovery action. Additionally, system generated legal debt recovery letters are not being posted to customers whilst the letter content is under review, and two of the standard automated debt recovery letters are no longer generated.</p> <p>Evidence was seen of bad debt write offs, prior to October 2018, having been appropriately authorised by the Chief Finance Officer, in line with the delegation levels stated in the Financial Regulations. However, there has been no bad debt write offs since this time.</p> <p>From December 2018, Debtor Control Account reconciliations are present but there is no evidence of any signatures or checks being made to ensure reconciliations are being carried out correctly. It was also found that the procedure for undertaking the bank reconciliation has not been documented and therefore in the absence of the Senior Financial Administrator this task cannot be effectively covered.</p>		

## 6. Planning & Resourcing

The internal audit plan for 2019-20 was approved by the Council's Leadership Team and the Audit, Crime & Disorder and Scrutiny Committee in March 2019.

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 7.

## 7. Rolling Work Programme

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
<b>2019-20</b>									
<b>Corporate Cross Cutting</b>									
Asset Management (Property Assets)	HofP&R	✓	✓	✓	✓			✓	Q2
<b>Corporate Governance</b>									
Contract Management	HofPPG	✓	✓	✓	✓	✓	Limited	✓	Q1
Human Resources & Organisational Development	HofHR&OD								Q4
Procurement	HofPPG	✓	✓	✓				✓	Q3

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Fraud & Irregularities	HofPPG	✓	✓	✓	✓	✓	Adequate	✓	Q1
Information Governance	CLO								Q4
<b>Financial management</b>									
Accounts Receivable / Debt Management	CFO	✓	✓	✓	✓	✓	Limited	✓	Q2
Main Accounting	CFO	✓	✓					✓	Fieldwork moved to Q4 at the request of the client.
Capital Accounting	CFO	✓	✓	✓				✓	Q3
<b>Information Technology</b>									
Data Management	HofD&ST							✓	Moved to Q3 with the agreement of the client.
Payment Card Industry Data Security Standard	HofD&ST								Q4
<b>Corporate priorities</b>									
Operational Services	HofOS								Q4

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Air Quality Monitoring	HofH&C	✓	✓	✓	✓	✓	Limited	✓	Q1
Local Plan	HofP							✓	Client has requested that this is moved to Q4.
Building Control	HofP	✓	✓	✓				✓	Q2
Community & Wellbeing Centre	HofOS	✓	✓	✓				✓	Q3
Income Generation & Enterprise Plan	CFO								Q4
<b>Grant/non-assurance work</b>									
EWDC Conservators Account	CFO	✓	✓	✓	✓	✓	n/a	✓	Q1

**8. Adjustment to the Internal Audit Plan**

There have been the following amendments made to the plan:

Plan Variations for 2019/20	
Removed from the plan	Reason
Cultural venues and facilities	Moved back to 2020/21 to account for the review of the Community & Wellbeing Centre being brought forward to this year.
Alternative Delivery Models	Removed from the plan at the request of the Chief Finance Officer. The scope of this review would overlap with the 2019/20 review of Income Generation and Commercialisation.
Added to the plan	Reason
Community & Wellbeing Centre	Added to the plan at the request of the Head of Operational Services and Head of Policy, Performance & Governance.