

Internal Audit Progress Report

October 2020

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.

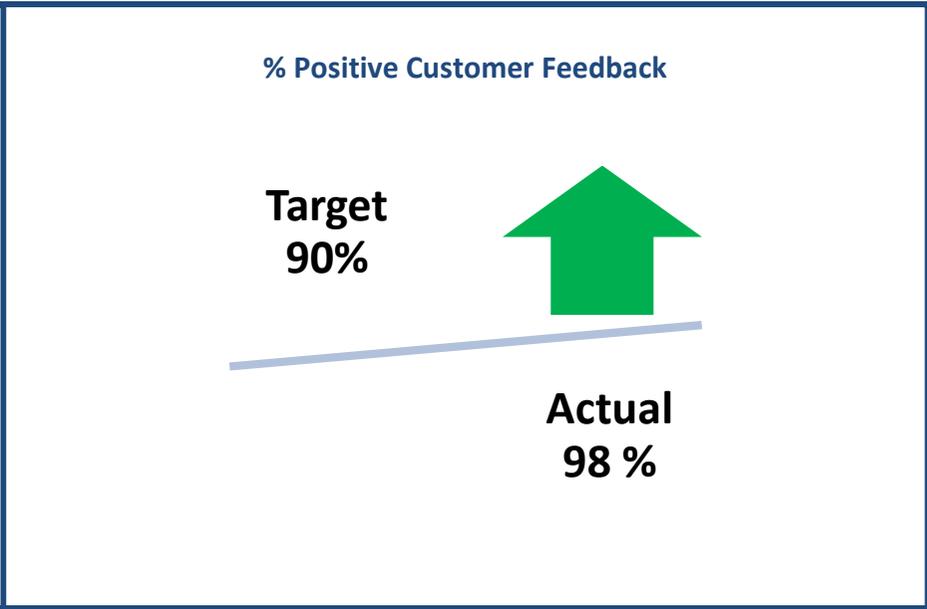
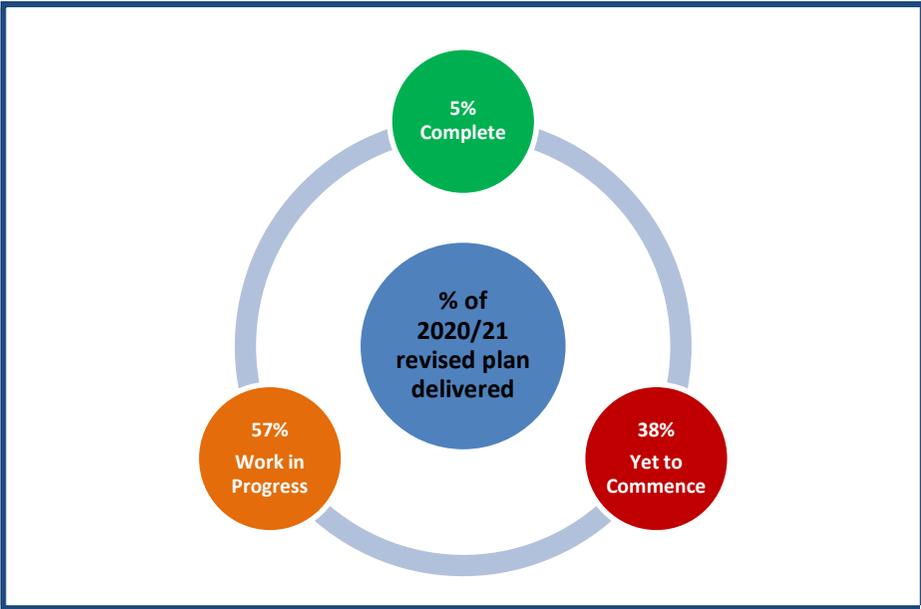
CIPFA have recently released a paper which examined the case for standardising the terminology and definitions used in internal audit engagements across the whole of the public sector and has subsequently recommended a standard set of opinions and supporting definitions for internal audit service providers to use.

To ensure we continue to conform to the best practice principles, we will be adopting the standard definitions for our 2020/21 work and moving forwards. The assurance opinions are categorised as follows:

- Substantial** 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** 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.
- Limited** 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** 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.

** Some reports listed within this progress report (pre 2020-21 audit plan) refer to categorisations used by SIAP prior to adoption of the CIPFA standard definitions, reference is provided at Annex 2*

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 2020. The report concluded:</p> <p><i>‘The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles.</i></p> <p><i>We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.’</i></p>

4. Analysis of 'Live' audit reviews

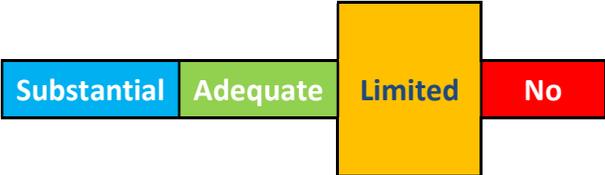
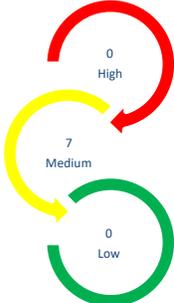
Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions ('High Priority')*					
				Total Actions Reported	Not Yet Due	Complete	Overdue		
							Priority		
							L	M	H
Fraud and Irregularities	06/08/2019	HofPPG	Adequate	4 (0)	0 (0)	3 (0)		1	
Accounts Receivable & Debt Management	15/10/2019	CFO	Limited	12 (9)	0 (0)	11 (8)			1
Building Control	17/12/2019	HofP	Limited	6 (1)	0(0)	0 (0)	4	1	1
Asset Management (Property Assets)	17/12/2019	HofP&R	Adequate	7 (5)	3 (1)	3 (3)			1
Procurement	19/12/2019	HofPPG	Limited	6 (3)	0 (0)	5 (2)			1
Main Accounting	30/04/2020	CFO	Adequate	2 (0)	0(0)	1 (0)		1	
Community and Wellbeing Centre	13/07/2020	HofOS	Limited	7 (0)	7 (0)	0 (0)			
Information Governance	17/08/2020	HofPPG	Adequate	9 (0)	8 (0)	1 (0)			
HR and OD – Recruitment of Permanent & Agency Staff	10/09/2020	HofHR&OD	Adequate	3 (0)	1 (0)	2 (0)			

* Details of the overdue 'high priority' management actions is provided at Annex 2

Audit Sponsor			
CFO	Chief Finance Officer	HofP	Head of Planning
HofD&ST	Head of Digital and Service Transformation	HofOS	Head of Operational Services
HofHR&OD	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

There has been one report concluding a “limited” assurance opinion since the February 2020 Internal Audit Progress Report.

Community & Wellbeing Centre		
<p>Head of Service Sponsor:</p> <p>Head of Operational Services</p> <p>Final Report Issued:</p> <p>13th July 2020</p>	<p>Assurance opinion:</p> 	<p>Management Actions:</p> 
<p>Summary of key observations:</p> <p>The review provided assurances that regular budget monitoring was regularly undertaken and that bookings were appropriately charged and recorded. Income was also found to be collected and banked accurately and securely.</p> <p>However, the amenity fund was not supported by any policy or procedure notes and its purpose was unclear. Testing highlighted no evidence to support the authorisation of expenditure from the fund and cash payments were found to have been made to pay instructors rather than being appropriately processed through the creditor or payroll system(s).</p> <p>Whilst it was evident that cash reconciliations of the amenity fund were regularly undertaken against the Fund Book, they regularly highlighted positive or negative imbalances that were simply carried forward. The fund book was not reconciled to the funds bank account.</p>		

6. Planning & Resourcing

The scale of COVID-19 coupled with the speed of its impact and the wide-ranging challenges presented has necessitated new and different ways of working across the Council. Such challenges and subsequent resolutions bring with them new and emerging risks that management need to consider, manage, and mitigate. In response, the Southern Internal Audit Partnership engaged with the Council’s Leadership Team to reprioritise the originally drafted audit plan in April 2020 to provide assurance in respect of emerging key risk areas and these are detailed within section 8 of this report.

The revised internal audit plan for 2020-21 was approved by the Leadership Team in July 2020 and is included as a separate paper at this committee meeting.

Due to the necessary revision of the internal audit plan and subsequent requirement for approval, progress to date has been limited, however all reviews have now been scheduled over the remainder of the year.

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
2019/20 (reviews finalised since the last progress report in February 2020)									
Human Resources & Organisational Development	HofHR&OD	✓	✓	✓	✓	✓	Adequate	✓	Incorporated within the 2019/20 Annual Report & Opinion

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Information Governance	CLO	✓	✓	✓	✓	✓	Adequate	✓	Incorporated within the 2019/20 Annual Report & Opinion
Main Accounting	CFO	✓	✓	✓	✓	✓	Adequate	✓	Incorporated within the 2019/20 Annual Report & Opinion
Local Plan	HofP	✓	✓	✓	✓	✓	Adequate	✓	Incorporated within the 2019/20 Annual Report & Opinion
Community & Wellbeing Centre	HofOS	✓	✓	✓	✓	✓	Limited	✓	Incorporated within the 2019/20 Annual Report & Opinion
Income Generation & Enterprise Plan	CFO	✓	✓	✓	✓	✓	Position Statement	✓	Incorporated within the 2019/20 Annual Report & Opinion
2020/21									
Corporate Cross Cutting									
Programme & Project Management	HofH&C & HofPPG	✓						✓	Q2/Q3
Financial Resilience	CFO							✓	Q4

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Corporate Governance									
Health and Safety	HofPPG	✓	✓	✓				✓	Q2
Decision Making & Accountability	HofPPG / CLO							✓	Q3
Local Government Compensation Scheme	CFO	✓						✓	Q3
Business Support Grant	HofD&ST	✓	✓	✓				✓	Q3
Other COVID Funding / Market Underwriting	HofD&ST & CFO							✓	Q4
COVID Response & Recovery	HofPPG	✓	✓	✓				✓	Q2
Financial Management									
Housing Benefits	HofD&ST	✓	✓					✓	Q3
Accounts Payable	CFO	✓						✓	Q3
Payroll	HofHR&OD	✓	✓					✓	Q3
Information Technology									
Data Management	HofD&ST							✓	Q4

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Disaster Recovery & IT Business Continuity	HofD&ST							✓	Q4
Cyber Security	HofD&ST	✓	✓	✓				✓	Q2
Corporate Priorities									
Climate Change	HofPPG							✓	Q4
Homelessness	HofH&C	✓						✓	Q3/4
Development Management	HofP	✓	✓	✓	✓			✓	Q1
Disabled Facility Grants	HofH&C	✓	✓	✓				✓	Q2
Community Safety	HofH&C							✓	Q4
Parking & Enforcement	HofOS							✓	Q4
EWDC Conservators Account	CFO	✓	✓	✓	✓	✓	n/a	✓	Q1

8. Adjustment to the Internal Audit Plan

There have been no further amendments to the plan presented to the Audit, Crime & Disorder and Scrutiny Committee.

Plan Variations for 2020/21	
Removed from the plan	Reason
Financial Sustainability	Replaced with Financial Resilience review for 2020/21.
Income Collection	Removed on the basis that Parking & Enforcement is already within the plan which is a key source of income.
Information Security	Replaced with the Cyber Security review for 2020/21 due to COVID risks.
Operational Services	Removed from the plan due to significant pressures on the service. Replaced with the Local Government Compensation Scheme review.
Investments	Replaced with Financial Resilience review for 2020/21.
Service Delivery Plans	Removed from the plan to allow for new audit areas due to COVID risks.
Fees and Charges	Removed from the plan to allow for new audit areas due to COVID risks.
Added to the plan	Reason
Business Support Grant	Prioritised due to implications of COVID-19.
Other COVID Funding / Market Underwriting	Prioritised due to implications of COVID-19.
COVID – Response & Recovery	Prioritised due to implications of COVID-19.
Cyber Security	Prioritised due to implications of COVID-19.
Financial Resilience	Prioritised due to implications of COVID-19.
Local Government Compensation Scheme (LGCS)	Included within the plan at the request of the Chief Finance Officer to review the methodology applied and sample check the accuracy of the three submissions to Central Government for the LGCS.

Overdue 'High Priority' Management Actions

Accounts Receivable / Debt Management – Limited Assurance

Observation: A daily reconciliation of the Cash Book to the General Ledger is carried out by entering the daily bank statement balance figure, and the balance on the General Ledger 40100 bank code, into a spreadsheet. There are additional reconciling fields to populate, which would give an explanation of the difference between the two.

A review of the Daily Cash Book Reconciliation spreadsheet revealed the reconciliation element of the spreadsheet was not being populated, which has led to an unexplained, growing difference between the bank statement figure and General Ledger 40100 bank code.

In order to complete the year end bank reconciliation process there was a concerted effort by the Accounting Team to reconcile the bank statement figure to the General Ledger 40100 bank code, which has satisfied the External Auditors.

Since this time the reconciliation process has not been fully completed, due to the ongoing system issues with CivicaPay, which the Accounting Team are continuing to work to resolve. As at 27/08/19, the difference between the accounts was £61,164,634.94.

There have been no monthly sign offs for the bank reconciliation since April 2019.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
<p>The difference between the General Ledger and Bank Statement was due to a known backlog of transactions, which have not yet posted to the General Ledger, due to the system issues since CivicaPay implementation and recent long-term staff absence. As at 11/10/19, the value of unmatched items has been reduced from £61.2m to £8.68m and there remains an unidentified difference of £189k within the bank reconciliation. Officers are working towards clearing all backlog transactions to achieve a fully reconciled bank position by the end of the financial year at the latest. To assist with clearing the backlog, a temporary member of staff has been recruited.</p> <p>There is an issue that a number of duplicate transactions are present in CivicaPay, which officers are working with the supplier to resolve. These duplicate transactions form a reconciling item within the bank reconciliation and are not present in the General Ledger, so are not causing any inaccuracy within the GL.</p> <p>Officers continue to work with the supplier to get the duplicate transactions removed from CivicaPay as soon as possible.</p>	31.03.2020	TBC	<p>Remains in progress – The issue has been escalated with the system supplier (Civicapay) for the need to remove the duplicate transactions, but they are still working on it. Therefore, the duplicates still form a reconciling item on our bank reconciliation.</p> <p>In the meantime, processes and checks are in place for the bank data loaded daily into the system so as soon as the duplicate transactions have been removed from the bank rec module this action will be completed.</p>

Building Control – Limited Assurance

Observation: Testing of fee income due, (as recorded on Uniform), for 12 Building Control Applications found:

- Three, where a letter to remind applicants that there fees were due had been issued (13 June, 25 June and 4 July 2019) but no follow up on these in terms of raising an invoice had been undertaken. Fees due from these applicants remained outstanding at the time of the audit (August 2019).
- One, where it is incorrectly recorded that fees have been paid (£400). There is no evidence on Civica that an invoice has been raised
- Eight where the income information recorded on Uniform agrees to Civica.

There is a risk that the Council are unable to demonstrate income has been received and accurately accounted for.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
Reconciliation to take place between Uniform and Civica	31.05.2020	31.03.2021	Business Admin Hub is now established and has been in operation for a couple of months now. However, having regard to the pending second lockdown that a new deadline date of 31 March 2021 for completion of the remaining actions.

Asset Management (Property Assets) – Adequate Assurance

Observation: On a strategic level the current Asset Management Plan makes reference to the proposed use of National Property Performance Indicators, ('NaPPMI') to gauge the effectiveness of the asset strategy in a number of defined areas such as condition, cost of maintenance and utilisation.

Audit testing identified that these indicators are not being compiled. Discussions with staff indicated that this is due to resourcing.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
Undertake recruitment and appoint to post.	31.03.2020	TBC	The post was not successfully recruited to and continues to be provided by an agency member of staff.

Procurement – Limited Assurance

Observation: An analysis of spend during the financial year 2018/19 was undertaken to ensure appropriate procurement processes were followed and contracts were evident for those suppliers with whom expenditure exceed EU / CSO thresholds.

From our analysis we sampled five areas of significant spend where we would have expected a tendering process to have been followed and a contract to be in place.

We identified examples of spend with two suppliers (based on soft quotes) that when aggregated exceeded £100K and for which there was no tender process followed.

This expenditure was primarily in respect of asset management and related to local traders.

Committed spend demonstrates non-compliance with CSO's and may leave the Council vulnerable to legal challenge if EU thresholds are exceeded.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
The majority of spend relates to minor works procured by the Projects Team. A small framework will be created that services can be either directly awarded or further competed from to ensure compliance.	30.06.2020	31.03.2021	Due to COVID, resource has been relocated to the Council's Emergency Response and therefore have not continued with any procurement. This action remains in progress.

Epsom & Ewell Borough Council Assurance Opinions (Pre 2020-21)

- 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.