



EPSOM & EWELL BOROUGH COUNCIL

Annual internal audit report 2015/2016

April 2016

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The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

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RSM Risk Assurance Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.

1 THE ANNUAL INTERNAL AUDIT OPINION

This report provides an annual internal audit opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. The opinion should contribute to the organisation's annual governance statement.

1.1 The opinion

For the 12 months ended 31 March 2016, the head of internal audit opinion for Epsom and Ewell Borough Council is as follows:

Head of internal audit opinion 2015/2016

The organisation has an adequate and effective framework for risk management and governance.

However, our work has identified further enhancements to the framework of internal control to ensure that it remains adequate and effective.

Please see appendix A for the full range of annual opinions available to us in preparing this report and opinion.

1.2 Scope of our work

The formation of our opinion is achieved through a risk-based plan of work, agreed with management and approved by the Audit, Crime & Disorder and Scrutiny Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that internal audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led assurance framework. As such, the assurance framework is one component that the board takes into account in making its annual governance statement (AGS).

1.3 Factors and findings which have informed our opinion

We have reported on 17 audits undertaken in year, of these:

- 3 were advisory audits which provided no formal opinion but categorised management actions;
- 5 provided substantial assurance;
- 6 gave reasonable assurance;
- 4 gave partial assurance, which were:
 - Property maintenance (7.15.16)
 - PCI Compliance control framework (8.15/16)
 - Car Park Income (11.15/16)

A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

The advisory reviews completed focussed on:

- Review of Anti-Fraud and Anti-Bribery arrangement – healthcheck of core policies to ensure “fraud proof” and in line with legislation.
- Contract management – We identified some instances of good practice contract management within the Council. For example, the presence of a contract register. However, overall there were limited formal contract management processes and controls in place. In particular, we identified challenges around performance reporting on contracts and gaps in accountabilities between those responsible for contract management and sponsors within service areas. In addition, there were no processes in place to ensure that contracts of significant risk were identified and given greater attention. The absence of formal contract management practice leaves the Council exposed to risk and decreases the likelihood of obtaining full value from contractual relationships with third party suppliers. Therefore, our recommendations are around introducing a more structured approach to contract management and investing in improving contract management awareness.
- Project management - Our review found some evidence of good practice project management across the Council. However, this was not consistently applied on many of the projects that we observed during our field work. Our view is that the formal application of project management is in its infancy. In particular, we identified weaknesses in project risk management, governance and accountability. There were also challenges around getting planned projects started in good time to enable delivery within timescales. Overall, we found there is scope to improve ways of working when delivering projects and related change programmes. Our report proposed a set of actions that if taken could bring significant improvements to the management of projects across the Council.

In all of these cases we are aware that the matters raised are being taken forward by management with routine reporting on the latter 2 in particular to the Audit, Crime & Disorder and Scrutiny Committee.

1.4 Topics judged relevant for consideration as part of the annual governance statement

There are no matters that we need to bring to your attention for consideration for inclusion in the Annual Governance Statement.

2 THE BASIS OF OUR INTERNAL AUDIT OPINION

As well as those headlines discussed at paragraph 1.3, the following areas have helped to inform our opinion. A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

2.1 Acceptance of internal audit recommendations

Management have agreed actions to address all of the findings reported by the internal audit service during 2015/2016.

2.2 Implementation of internal audit recommendations

Our follow up of the actions agreed to address previous years' internal audit findings shows that the organisation had made little progress in implementing the agreed actions.

There are 4 high rated actions not yet implemented. These relate to procurement and payroll. We are aware that management action in both of these areas is ongoing.

The medium actions not yet fully addressed also relate to payroll and procurement, as well as data quality and a number of individual areas from 2013/14.

Implementation status by review	Number of actions agreed	Status of management actions			
		Implemented	Implementation ongoing	Not implemented	Superseded
Income streams	3	1	1	-	1
Planning income	3	2	-	-	1
Data quality	5	4	-	1	
Procurement arrangements	6	4	-	-	2
Playhouse – security of income	2	2	-	-	-
Procurement	9	2	6	1	-
Freedom of information	1	1	-	-	-
Payroll	6	2	-	2	2
Emergency planning and compliance	1	1	-	-	-
Follow up	17	4	4	5	4
Total	53	23	11	9	10

Implementation status by management action priority	Number of actions agreed	Status of management actions			
		Implemented	Implementation ongoing	Not implemented	Superseded
High	11	6	3	1	1
Medium	42	17	8	8	9
Total	53	23	11	9	10
		43%	21%	17%	19%

The high rated actions not yet implemented all relate to procurement which we acknowledge is subject to a more detailed action plan, which has been reported to the Audit, Crime & Disorder and Scrutiny Committee and a monitoring report will be made in the Autumn.

2.3 Working with other assurance providers

In forming our opinion we have not placed any direct reliance on other assurance providers.

3 OUR PERFORMANCE

3.1 Wider value adding delivery

In the year we have:

- issued 8 local authority news bulletins;
- provided benchmarking within our reports on the number and category of recommendations and assurance opinions across other organisations where appropriate;
- highlighted actions for management throughout our audit reports based on our knowledge and experience in the local government sector to provide areas for consideration;
- used specialists to undertake a review of your project and contract management approach;
- used a specialist to review your compliance with the Payment Card Industry standards;
- provided regular contact and ad-hoc telephone calls and responded to queries from senior staff throughout the year.

3.2 Conflicts of interest

RSM has not undertaken any work or activity during 2015/2016 that would lead us to declare any conflict of interest.

3.3 Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the International Standards for the Professional Practice of Internal Auditing (the Standards).

Under the Standards, internal audit services are required to have an external quality assessment every five years. Our risk assurance service line commissioned an external independent review of our internal audit services in 2011 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA).

The external review concluded that “the design and implementation of systems for the delivery of internal audit provides substantial assurance that the standards established by the IIA in the IPPF will be delivered in an adequate and effective manner”. Work is in hand to arrange our next review.

The risk assurance service line has in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit services. Resulting from the programme, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

3.4 Feedback

We have not received any responses to the post assignment surveys issued to management.

3.5 Performance indicators

A number of performance indicators were agreed with the audit committee. Our performance against those indicators is as follows:

Delivery	Quality			Quality	Quality		
	Target	Actual	Notes (ref)		Target	Actual	Notes (ref)
Audits commenced in line with original timescales	Yes	Yes	1	Conformance with IIA standards	Yes	Yes	
Draft reports issued within 10 days of debrief meeting	100%	44%	2	Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit.	Yes	Yes	
Final report issued within 3 days of management response	100%	93%	3	Respond to general enquiries for assistance within two working days	100%	100%	
% of High & Medium actions followed up	100%			Respond to emergencies or notifications of potential fraud within one working day	100%	None received	

Notes

- 1 – dates for the start of audits were changed at management request.
- 2 – whilst we met the 10 day target in 44% of cases, we met the 20 day contractual target in 75%
- 3 – the 3 day deadline was missed by 1 day in 1 case

APPENDIX A: ANNUAL OPINIONS

The following shows the full range of opinions available to us within our internal audit methodology to provide you with context regarding your annual internal audit opinion.

Annual opinions

The organisation has an adequate and effective framework for risk management, governance and internal control.

The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective.

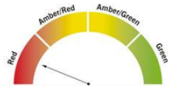
There are weaknesses in the framework of governance, risk management and control such that it could be, or could become, inadequate and ineffective.

The organisation does not have an adequate framework of risk management, governance or internal control.

APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED 2015/2016

Assignment	Executive lead	Assurance level	Actions agreed		
			H	M	L
Attendance (1.15/16)	Karen Williams	Substantial	-	1	1
Recruitment (2.15/16)	Karen Williams	Reasonable	-	1	5
Review of Anti-Fraud and Anti-Bribery arrangement (3.15/16)	Karen Williams	Advisory	-	-	-
Cash Handling (4.14/15)	Karen Williams	Reasonable	1	3	2
Venues (5.15/16)	Karen Williams	Reasonable	-	1	1
Information Governance (6.15/16)	Karen Williams	Reasonable	-	1	8
Property Maintenance (7.15/16)	Karen Williams	Partial	1	1	2
PCI Compliance Control Framework (8.15/16)	Karen Williams	Partial	3	6	-
Project Management Advisory Review (9.15/16)	Karen Williams	Advisory	-	-	-
Contract Management Advisory Review (10.15/16)	Karen Williams	Advisory	-	-	-
Car Park Income (11.15/16)	Karen Williams	Partial	1	1	1
Fleet Management (12.15/16)	Karen Williams	Substantial	-	-	2
Green Waste Income (13.15/16)	Karen Williams	Reasonable	-	2	1
Payroll (14.15/16)	Karen Williams	Reasonable	-	1	3
Capital Accounting and Fixed Assets (15.15/16)	Karen Williams	Substantial	-	-	-
Software Licensing (16.15/16)	Karen Williams	Reasonable	-	4	2
Performance Management and the implementation of the Corporate Plan (17.15/16)	Karen Williams	Reasonable	-	2	1
DRAFT					
			6	24	29

We use the following levels of opinion classification within our internal audit reports. Reflecting the level of assurance the Council can take:

None

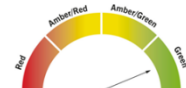
Taking account of the issues identified, the Council cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Urgent action is needed to strengthen the control framework to manage the identified risk(s).

Partial

Taking account of the issues identified, the Council can take partial assurance that the controls to manage this risk are suitably designed and consistently applied. Action is needed to strengthen the control framework to manage the identified risk(s).

Reasonable

Taking account of the issues identified, the Council can take reasonable assurance that the controls in place to manage this risk are suitably designed and consistently applied. However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified risk(s).

Substantial

Taking account of the issues identified, the Council can take substantial assurance that the controls upon which the organisation relies to manage the identified risk(s) are suitably designed, consistently applied and operating effectively.

FOR FURTHER INFORMATION CONTACT

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