



## **EPSOM AND EWELL BOROUGH COUNCIL**

### **Internal Audit Progress Report**

**Audit, Crime & Disorder and Scrutiny  
Committee Meeting**

**9 February 2017**

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# 1 INTRODUCTION

The Internal Audit Plan for 2016/17 was approved by the Audit, Crime & Disorder Scrutiny Committee in April 2016.

This report provides a summary update on progress against that plan and summarises the results of our work to date.

## 2 FINDINGS CONSIDERED AT THIS AUDIT COMMITTEE

This table informs of the audit assignments that have been finalised and the impacts of those findings since our last report to the Audit, Crime & Disorder and Scrutiny Committee.

The Executive Summary and Key Findings of the assignments below are attached to this progress report at Appendix B.

Assignment	Assurance	Management Actions agreed		
		High	Medium	Low
Building and Planning Control (7.16/17)	Reasonable	-	1	4
Corporate Governance (8.16/17)	Substantial	-	-	-
Risk Management (9.16/17)	Reasonable	-	1	2
Creditors And Ordering (10.16/17)	Substantial	-	-	1

### 3 LOOKING AHEAD

Assignment area	Timing per approved IA plan 2016/17	Status
Car Parking – On Street and Car Parks	July 2016	Deferred start date at management request to October 2016. Fieldwork complete and report to be issued.
Financial Management and Main Accounting	September 2016	Request by management to defer until after Christmas due to staff absences.
Allocations, Lettings and Voids	October 2016	Request to defer to post Christmas 2016
Payroll	November 2016	Issued in draft 11.16/17
PCI Code Of Conduct Compliance	November 2016	Now planned for February 2017
Data quality (16/17)	December 2016	Now planned for February 2017
Council Tax (Revenues)	January 2017	
Benefits	January 2017	
Rental Income	February 2017	
Implementation of Business Performance Review actions – Homelessness	February 2017	
Procurement Of Agency Staff	February 2017	
Private Sector Leasing Scheme	March 2017	Likely to be deferred to post March 2017 as little activity to audit
Procurement	March 2017	

## 4 OTHER MATTERS

### 4.1 Changes to the audit plan

Other than some timing changes, there are no changes to the plan proposed at this time.

### 4.2 Added value work

Our contract risk specialist undertook the review of the Facilities Management contract (1.16/17) which was at the request of management.

# APPENDIX A: INTERNAL AUDIT ASSIGNMENTS COMPLETED TO DATE

Reports previously seen by the Audit Committee and included for information purposes only:

Assignment	Assurance	Management Actions agreed		
		High	Medium	Low
Facilities Management Contract Review (1.16/17)	Advisory review	Advisory findings only		
Cash Handling (2.16/17)	Reasonable assurance	-	1	2
Data Quality (15/16) (3.16/17)	Reasonable assurance	-	1	2
Housing Rent Accounting and Reconciliation (4.16/17)	Partial assurance	-	3	3
Workforce Planning (5.16/17)	Advisory review	Advisory findings only		
Implementation of Business Performance Review actions – Democratic Services (6.16/17)	Reasonable assurance	-	1	2
Grant audits	Complete – no report required			

## APPENDIX B: EXECUTIVE SUMMARIES

Assignment: Building and Planning Control (7.16/17)	Opinion:	Reasonable
<p>The key findings from this review are as follows:</p> <p><b>Design of the Control Framework</b></p> <ul style="list-style-type: none"> <li>a) The Head of Place Development and a Senior Accountant from the Council's Finance Team meet on a quarterly basis for informal discussions surrounding income at the Council. However no formal reconciliation is carried out between Uniform and the Council's finance system. There is a risk of error or omission of income due to the Council not be logged on the finance system.</li> <li>b) We noted that Building Control performance indicators are not formally monitored by Senior Management. By not formally monitoring the performance of the department there is a risk that poor performance is not identified and addressed. The Council is subject to external competition for its building control services and an unidentified slip in performance if not addressed could impact on the competitiveness of the organisation leading to a loss of income for the Council.</li> </ul> <p><b>Application of the Control Framework</b></p> <ul style="list-style-type: none"> <li>c) When applications require further information to be validated it is the customer services responsibility to chase up customers for this information. Two individuals within the team are responsible for obtaining further information for incomplete applications in customer services (both planning and building control). Due to the large volume of invalid applications that require monitoring not all applications are being promptly followed up after the initial reminder letter was sent to the building control applicant. Consequently this could result in a delay or loss of income for the Council and reputational damage which could impact on repeat business for the Building Control Team.</li> <li>d) Through discussion with the Customer Services Team we identified that when Planning Control passes on "invalid" applications to Customer Services via the 'electronic e-tray' the reason for the application being invalid is sometimes not provided. As a result this prevents Customer Services Team from immediately chasing up the application. There is a risk that this delays applications being processed leading to delay in income for the Council and increased customer dissatisfaction.</li> <li>e) Income is monitored quarterly by the Head of Place Development and the departments Senior Accountant. It was noted the Council do not pick up monthly monitoring until after Q1. In addition July's report has not been produced as a result of issues with sickness absence. There is a risk that income is not being consistently monitored that negative trends will not be noted and acted upon in an appropriate manner.</li> </ul> <p><b>Well-designed controls being applied effectively</b></p> <ul style="list-style-type: none"> <li>f) Fees and charges for building control are set by the Council. Any changes to fees that are greater than 20% must be authorised at committee level. Any fees less than 20% are agreed between the Building Control Manager, Head of Place Development and the Head of Finance. Fees are reviewed annually by the Building Control Team. Changes to fees are based on the level of surplus or deficit in income. The Council made a surplus of £77,000 in 2015/16. As a result the Council made the decision to keep the fees the same as the previous year. Fees have remained constant since September 2014. Planning fees are set at a national level independently of the Council.</li> <li>g) Building control fees are available on the Council's website. These fees are accessible to all members of the public. The fees advertised reconcile to those originally agreed at the environment committee in September 2014.</li> <li>h) Applications are costed by the Building Control Team. The fees charged for services are based on those agreed by the Council in September 2014. We found that all fees charged in our sample could be</li> </ul>		



reconciled back to the fees initially agreed upon in September 2014.

- i) Planning applications are processed against a national charges framework. Applications have standard costings and these are processed by the planning team at the Council. We found that fees charged could be reconciled back to the national charges framework and were correctly processed.
- j) Building Control applications are required to be paid for in advance if the value of the application falls below £1000. Any application worth higher than £1000 is invoiced. For a sample of 10 building applications with a fee value below £1000 we confirmed that payment had been received in all cases prior to the works starting.
- k) For all planning applications payment is received for all applications at the time the application is made. For all sampled planning applications we found that payment was made in this manner.
- l) On a monthly basis Planning produce a range of KPIs to monitor performance. Indicators include major applications determined within 13 weeks and minor applications determined within 8 weeks. These are RAG rated. Any under performance is flagged in these reports and action plans are put in place. As identified within our 2015/16 Performance Management audit, the Council is currently in the process of redeveloping their performance management framework. At the time of the audit the new framework had just been approved. As a result KPIs have not been reviewed since the end of the last financial year and will be reviewed retrospectively once the new performance management framework has been implemented.

	Agreed Management Action	Implementation Date	Manager Responsible
1	On a quarterly basis a formal reconciliation between Uniform and the Council's Finance system will be recorded. (Low)	1 March 2017	Mark Berry – Head of Place Development
2	Building and Planning Control will meet with Customer Services on a monthly basis to review the status of invalid applications.  Officers will investigate the possibility of support systems providing a prompt to the Customer Services Team when an applicant has not responded to an initial letter requesting further information to complete their application. (Medium)	1 March 2017	Mark Berry – Head of Place Development
3	Officers in the Planning Team will ensure that in all cases they provide comments as to why planning applications are invalid when the application is originally relayed back to the Customer Services Team for progression. This will allow the Customer Services Team to chase up the application promptly. (Low)	1 March 2017	Mark Berry – Head of Place Development
4	The Head of Place Development and the Council's Senior Accountant will review Building and Planning control income and produce a formally agreed reconciliation of the two systems. (Low)	1 March 2017	Mark Berry – Head of Place Development
5	The Building Control Service is due for a fundamental business process review in early 2017 and subject to the outcome of this Building Control KPIs will be reported on at committee level from 2017/18. (Low)	1 April 2017	Mark Berry – Head of Place Development

Assignment: Corporate Governance (8.16/17)	Opinion:	Substantial
<p>The key findings from this review are as follows:</p> <ul style="list-style-type: none"> <li>a) The Council's Corporate Priorities are prescribed through its Strategic Corporate Plan and defined through key outcomes and success measures which are reported annually. Supporting these, key performance indicators have been identified which are aligned to the Corporate Plan and we confirmed that these are reported to the Policy Committees and through the quarterly cycle schedule. These performance reports are also monitored and challenged by the Leadership Team and an overview is reported to the Audit, Crime &amp; Disorder and Scrutiny Committee.</li> <li>b) The annual statement of Corporate Governance is approved and signed by the Chair of Strategy and Resources and the Chief Executive. In order to demonstrate adherence to the CIPFA / SOLACE guidance on delivering good governance, the Head of Corporate Governance completes a checklist of those areas that support the overall annual governance statement and these areas of assurance are listed in the statement itself. These reported areas of control assurance are commensurate with our own observation of governance systems within the organisation.</li> <li>c) Overall the changes between the 2007 and 2016 CIPFA guidance are subtle but there is a slight change of increased emphasis on sustainability, transparency and demonstrating that effective decision making and intervention are adding value. In response to these changes a refreshed drafted code of corporate Governance has been prepared by EEBC officers. This new drafted code of corporate governance is clearly structured in such a way as to consider how as an organisation those governance processes and controls that currently exist address the requirements of the 7 principles of good governance as defined in the 2016 guidance. We have additionally identified some further minor areas of improvement that could be incorporated into the code before it is finalised and officers will consider these suggestions further.</li> <li>d) Individual divisional service area governance statements are required from each Head of Service. These statements require the Head of service to sign a statement declaring that services have been delivered in accordance with legislation; local financial regulations, standing orders, contract procedure rules and that efficient and effective processes are in place. In particular control weakness and risks which impact on service delivery are listed in this statement together with actions intended to mitigate their outcome. We satisfactorily verified the signed and completed divisional statements of assurance for 2015/16 and these statements clearly set out responsibilities and accountability for service delivery and the reporting of control weaknesses and known risks from individual heads of service. In addition the 15/16 Annual Governance statement includes a gap analysis that highlights eleven areas for further control and governance improvement.</li> <li>e) The Officer Corporate Governance Group reports quarterly to the Leadership Team on relevant governance matters and has prepared an action list based on control self-assessment that has informed the annual governance statement.</li> <li>f) There was no formal consolidated service planning process although there are a number of associated processes that pick up on service planning issues (budget setting, risk management, performance target setting etc). Service Planning can provide the full context of how and why services are delivered and in particular those opportunities, risks and developments that may impact on operational delivery going forward. It can aid and provide focus for day to day management, inform the department and team of the rationale behind the service, and mitigate the risks associated with succession planning. Going forward officers have agreed to consider further the merits of formal service planning.</li> </ul>		

	Agreed Management Actions	Implementation Date	Manager Responsible
1	<p>Management will consider further the following updates to be included in the EEBC Code of Corporate Governance:</p> <ul style="list-style-type: none"> <li>• In response to the increased emphasis within the new code on Intervention there is merit in defining the qualities of good decision making within the code.</li> <li>• Further reference within the code should refer to the work of the Internal Audit function and its remit to review and report upon the adequacy of key controls within the organisation</li> <li>• Further reference within the code will define and explain those governance arrangements in respect of partnership, collaborations and project management. (Suggestion)</li> </ul>	1 July 2017	Gillian McTaggart, Head of Corporate Governance
2	There is scope for service planning to be formally introduced and in this respect management and the leadership team will consider this further. (Suggestion)	1 July 2017	Gillian McTaggart, Head of Corporate Governance

Assignment: Risk Management (9.16/17)	Opinion:	Reasonable
<p>The key findings from this review are as follows:</p> <p>a) We satisfactorily confirmed that key risks are evidenced and routinely considered by senior officers within the Council and members are annually updated regarding the risk management strategy and any changes to the strategic risk profile.</p> <p>b) Individual divisional service area governance statements are required from each Head of Service. These statements require the Head of service to sign a statement declaring that services have been delivered in accordance with legislation; local financial regulations, standing orders and that efficient and effective processes are in place. In particular control weakness and risks which impact on service delivery are listed in this statement together with actions intended to mitigate their outcome. We satisfactorily verified a sample of signed divisional statements of assurance for 2015/16. These statements clearly set out the responsibilities and accountability for service delivery and the reporting of control weaknesses and known risks from individual heads of service. This process integrates risk management with corporate governance and provides a clear method for embedding risk management within the organisation and capturing 'service level' risks. These service risks are then monitored throughout the year. In 2016 a total of 53 service risks were identified of which 24 were 'high' risk.</p> <p>c) The Corporate Governance Group has responsibility for identifying and escalating common risks to the Leadership Team. We confirmed that the Leadership Team review and challenge the top 10 risks within the Leadership Risk Register on a regular basis and also review the risks within the Service Risk Register.</p>		

- d) We note that the Partnership Risk Register has not been recently refreshed. In this respect a management action has been agreed to examine and update the mitigating actions and controls to ensure that they accurately address the current risk status.
- e) The Risk Management Strategy is reviewed and updated through the Audit, Crime & Disorder and Scrutiny Committee. The strategy sets out the processes, responsibilities and reporting structures for managing risk and provides a summary of the key leadership risks. We confirmed that the last review occurred on 15<sup>th</sup> November 2016.
- f) There is currently no risk management guidance held on the intranet. There would be merit in highlighting to all staff that business risk should be discussed at a team level and where relevant within PDR's with staff every 6 months where risk related actions are scheduled.
- g) There is not currently a Board Assurance Framework in place. One of the key considerations in the development of risk management and its value to the organisation is the assurance the Council can take that the controls defined in risk registers are adequate and effective. In this respect we would expect to see risks mapped to the outcome of systematic assurance reviews. Such assurances may come from internal challenge and reporting or External / Internal Audit or other third parties. Where assurance gaps are then highlighted within the register, work with assurance audit teams and other third parties can be more effectively directed at providing reviews that will provide comfort regarding the adequacy of controls that mitigate risks. The process of assurance mapping would in addition strengthen the visibility of governance arrangements. Officers have agreed to progress a management action to introduce a Board Assurance Framework.
- h) We noted during our recent review of Governance arrangements that there is currently no formal consolidated service planning process. As part of that review we have suggested that Service Planning can provide the full context of how and why services are delivered and in particular those opportunities, risks and developments that may impact on operational delivery going forward. It can aid and provide focus for day to day management, inform the department and team of the rationale behind the service, and mitigate the risks associated with succession planning. Officer have agreed to look at this further going forward and this is recorded as a suggestion in our action plan below in the context of the added value to the risk management system.

	Agreed Management Action	Implementation Date	Manager Responsible
1	The guidance for identifying, assessing, documenting and reporting risk together with officer's responsibilities must be clearly stated and communicated to all staff. This will be provided via the Council's Intranet. (Low)	30 April 2017	Gillian McTaggart
2	A Board Assurance Framework will be developed.  The strategy will set out clearly the delegation of responsibility for compiling and obtaining assurances to be mapped against the Authority's primary risks to the achievement of its strategic objectives. (Medium)	30 June 2017	Gillian McTaggart
3	The current Partnership Risk Register will be reviewed and updated and the mitigating actions and controls re-assessed to ensure that they accurately address the current risk status. (Low)	30 April 2017	Gillian McTaggart

4	<p>There is potential at service level for risk management to be built into a formal annual service plan process.</p> <p>Service plan risks would be formally captured and then updated and refreshed (6 months later) through the 6 monthly divisional assurance statements.(Suggestion)</p>	30 June 2017	Gillian McTaggart / Leadership Team
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Assignment: Creditors (10.16/17)	Opinion:	Substantial
<p>The key findings from this review are as follows:</p> <p>a) We reviewed a sample of 10 invoices processed by the Council in 2016/17. In one case, we confirmed that the invoice authorisation limit was not met. Accordingly, there is a risk to the Council that payments are being made by individuals who do not have the requisite authority level to do so. This compromises the Council's financial rules of procedure and could potentially occur again in the future with payments of greater value.</p> <p><b>Well-Designed Controls Being Applied Effectively</b></p> <p>b) We reviewed the creditor procedure notes in use and confirmed they are complete and covered the full range of functions carried out by the Creditor's Team.</p> <p>c) We confirmed for a sample of 10 new suppliers that appropriate backing documentation was in place before they were created as an account on the Civica system. New suppliers provide details on Supplier Application Forms or through the first invoice due to be paid by the Council. All details on the system corresponded to the backing documentation completed by the supplier.</p> <p>d) We confirmed for a sample of amendments to supplier details that appropriate checks were carried out in each case. Seven of these cases related to a change of bank detail and correspondence between the Financial Admin Officer and the supplier on previously existing contact information was documented in each case. All amendments were subsequently authorised following review by the Exchequer Team Leader.</p> <p>e) All Invoices are authorised for payment and evidenced with a certifying signature that is checked within the Exchequer Finance Team who maintain the list of authorised signatories and their designated limits. Those invoices not supported by an electronic purchase order are additionally certified for payment by the Exchequer Team Leader. We reviewed the full list of invoices processed at the Council in the 2016/17 financial year. For a sample we confirmed that one officer had requested the purchase order whilst a separate officer had authorised it. Payment was authorised following the receipt of the goods in each case.</p> <p>f) We confirmed that 22.4% of the invoices paid to date had a supporting purchase order. Through discussion with the Exchequer Team Leader we confirmed that efforts have been made to increase the number of purchase orders processed at the Council. However, as a result of exemptions with specific suppliers and an inability to pay via purchase order (utility companies etc.). The Council is unable to increase its proportion of purchase orders compared with non-purchase orders any further. Accordingly, a management action has not been raised in this instance.</p>		

- g) The names of officers authorised to sign off orders and payments are approved by the signature of the Director of Finance and Resources or the Chief Executive, within the authorised signatory list. Authority limits are stated within the authorised signatory list and are uploaded onto the Civica system to provide an electronic control over which officers can authorise payments.
- h) Payment runs are processed on a weekly basis by the Financial Admin Officer. In each case, we confirmed that the total BACS transfer amount corresponded to the payment run report total ran from the Civica system. For those payments of £40,000 or more, a signature from a separate officer was present to evidence a secondary review.
- i) The Exchequer Team Leader performs a biannual check on duplicate transactions through a review of payment runs. We reviewed the list of payments made by the Council between April 2016 and January 2017 in its entirety. We found one case of a duplicate payment being made in error to the wrong supplier. The outstanding £588 was recovered in full by the creditor's team following review by the Exchequer Team Leader.
- j) We reviewed a sample of monthly reconciliations and in each case, confirmed that balance of the creditor module agreed to the general ledger and that the reconciliation was performed by the Exchequer Team Leader and reviewed by a different accountant on the Financial Services Team.
- k) We reviewed the procedure surrounding the payment of creditors via cheque and confirmed that cheque payments were only been made on five occasions, and on each occasion relevant information has been recorded in each case to support the use of the cheque. Each payment was prepared by one individual and authorised by a separate Accountant.
- l) We reviewed the creditor performance indicator data for the year to November and confirmed that the data set was complete for each month and a percentage figure for how many invoices were paid on time over total invoices was recorded. The Exchequer Team Leader sends the performance data on to the Head of Financial Services on a monthly basis, where any issues are raised.

	Agreed Management Action	Implementation Date	Manager Responsible
1	The Creditors Team will ensure that all payments authorised for payment are done so by appropriate members of staff with a sufficient authority limit. Future consideration should be given to use of an integrated ordering and payments system to negate the double authorisation of the order and resulting payment. (Low)	31 January 2017	Sue Overall – Exchequer Team Leader

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