



EPSOM AND EWELL BOROUGH COUNCIL

Internal Audit Annual Report 2016/17

May 2017

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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. Management actions 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 HEAD OF INTERNAL AUDIT OPINION

In accordance with Public Sector Internal Audit Standards, the head of internal audit is required to provide an annual 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 2017, the head of internal audit opinion for Epsom and Ewell Borough Council is as follows:

Head of internal audit opinion 2016/2017

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.

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 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 completed 23 audits. The 23 opinions can be summarised as follows:

- 5 - substantial assurance
- 9 - reasonable assurance
- 4 – partial assurance
- 4 - advisory reports which did not result in a formal opinion.
- 1 – Grants Audits

We gave a partial opinion in respect of the housing rent accounting and reconciliation in which we identified three issues requiring management action which we were given a medium risk priority. These were:

- Rents received as recorded in the Academy Rents system were not reconciled weekly to the Icon cash receipting system, meaning input errors or income released from the suspense account may not be identified.

- The procedures for the recovery of arrears did not specify at what point arrears should be recovered and did not set time intervals between recovery letters, meaning the chasing of arrears may not begin until tenants have debts which are large for them and recovery action may be slow which will reduce recovery success.
- There was a lack of staff capacity to pursue all arrears effectively, in part due to the manual processes required by the lack of functionality in the system. Consequently we found long delays between recovery letters for some tenants and for many tenants in arrears the current level of their arrears had not been calculated.

We gave a partial opinion in respect of the council's compliance with the PCI code. We identified the following areas for improvement which management agreed actions to address:

- The Council had not completed the self-assessment questionnaire D for achieving PCI DSS compliance. This increases the risk of breach and possibility of the Council being charged non-compliance fees by the Bank.
- The voice recording system used by the Council to record incoming calls to Customer Services had been upgraded to comply with PCI requirements. It must automatically stop recording when payment card details are being provided by a customer. However the system is not working when coupled to CRM, increasing the risk that customer payment card details could be retained on Council systems, resulting in breach of PCI regulations.
- The Council was failing to ensure that the third party organisations that it deals with to facilitate card payments are themselves PCI compliant. This increases the risk of the Council failing to comply with PCI requirements.

We gave a partial opinion in respect of the council's procurement systems. Our overall assurance was reduced as governance arrangements, corporate support for the organisation and key controls are being actively worked on. In particular officers have agreed to include further detail within the prioritised action plan :

- To Identify key areas of procurement activity non-compliant with Contract Standing orders and Policy and to schedule market testing in the short to medium term;
- To Identify key time lines for contracts that are up for renewal in the next 3 years and ensure responsibility and action of renewal are scheduled and monitored;
- To create and maintain a monitoring model to quickly identify maverick spending and areas of non-compliance
- To maintaining key performance indicators.

We gave a partial opinion in respect of the council's data quality arrangements regarding performance indicators. We identified the following areas for improvement which resulted in agreed management actions :

- Going forward the Council will ensure that KPI owners produce relevant verification forms to ensure there is a clear understanding of reporting requirements for each indicator.
- KPI owners will be reminded of the need to maintain audit trails to support data
- The Performance Management team will carry out periodic sample checks to verify that data returns submitted by KPI owners are supported with a clear audit trail.
- Access to systems will be improved for KPI owners to obtain the correct data at the right time

We have also issued an advisory report in respect of the Lintons Lane planning permission and associated S106 agreement. This reviewed the adequacy of controls put in place by officers to address the financial loss arising from an issue relating to a 'variation' to the original planning permission. Going forward satisfactory controls have been prescribed and communicated to staff.

The extracts above are taken directly from our internal audit reports issued during 2016/17 and in some instances may refer to work that was undertaken c12 months ago. Officers have been progressing actions to address these findings during the course of the year.

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

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

There are no areas that we are aware of through our work or from wider sector knowledge that have impacted your opinion and therefore should be flagged in the AGS.

2 THE BASIS OF OUR INTERNAL AUDIT OPINION

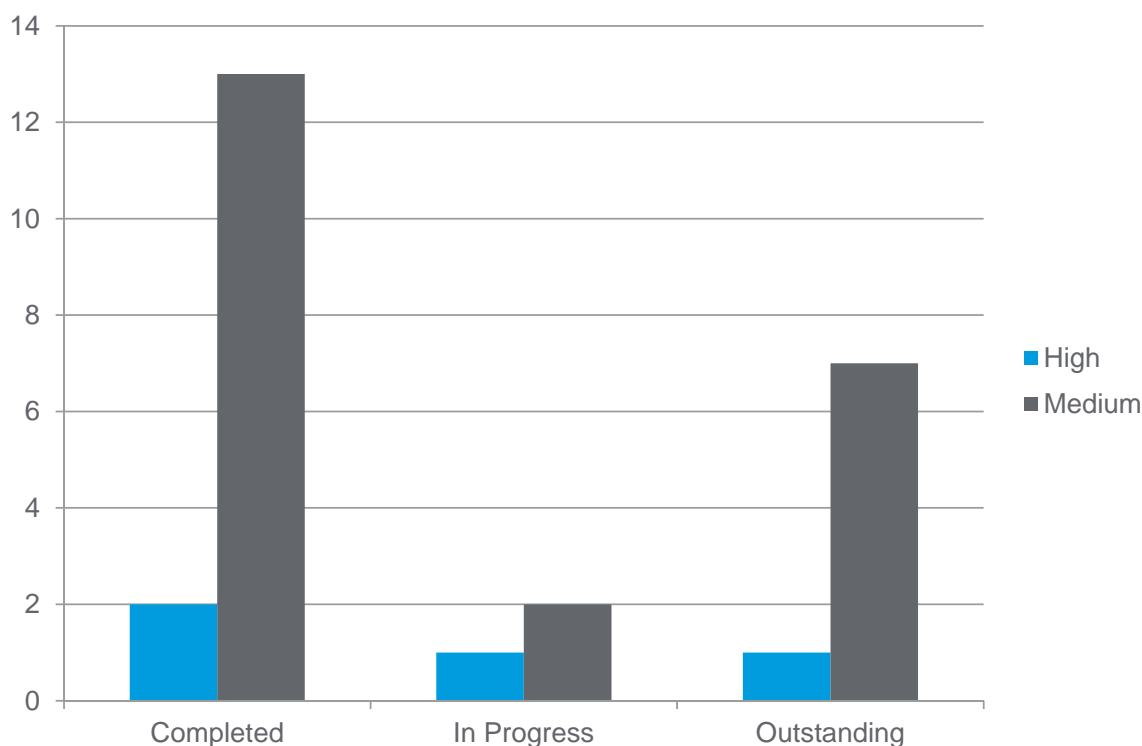
As well as those headlines discussed at paragraph 1.3, the following areas have helped to inform our opinion. A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

2.1 Acceptance of internal audit management actions

Management have agreed actions to address all of the findings reported by the internal audit service during 2016/2017.

2.2 Implementation of internal audit management actions

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



There were two 'High' level management actions that had either not been implemented or were in progress. These related to PCI compliance (voice recording software to be implemented) and Property Management (key maintenance schedules in the process of being prepared) .

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;
- 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 2016/2017 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 Public Sector Internal Audit Standards (PSIAS).

Under PSIAS, 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 2016 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) on which PSIAS is based.

The external review concluded that “there is a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to audit committee and the supporting working papers.” RSM was found to have an excellent level of conformance with the IIA’s professional standards.

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 responses to our assignment surveys.

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			
	Target	Actual	Notes (ref)		Target	Actual	Notes (ref)
Audits commenced in line with original timescales	Yes	Yes	1	Conformance with PSIAS	Yes	Yes	
Draft reports issued within 10 working days of debrief meeting	100%	Yes	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	
Draft reports issued within 20 working days of debrief meeting	100%	Yes	2	Respond to general enquiries for assistance within two working days	100%	100%	
Final report issued within X days of management response	100%	Yes		Respond to emergencies or notifications of potential fraud within one working day	100%	None received	
% of High & Medium actions followed up	100%	Yes	3				
Notes							
1 – Any changes were at the request of Council management							
2 – 10 working days is the RSM target, the contractual target is 20 working days.							
3 – Results of follow up reported quarterly to management							

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.

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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.

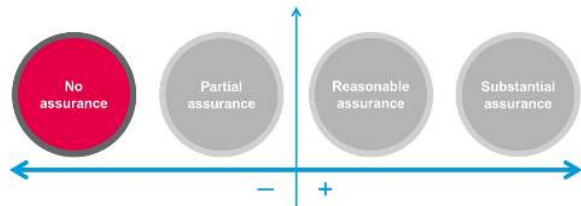
There are weaknesses in the framework of governance, risk management and control such that it could be, or could become, inadequate and ineffective.

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

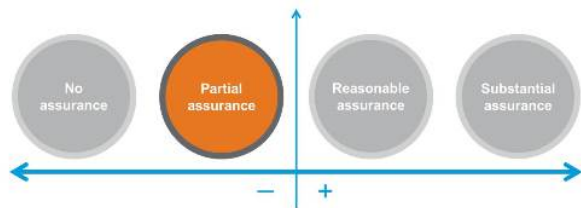
APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED 2016/2017

Assignment	Assurance level	Actions agreed		
		H	M	L
Facilities Management Contract Review (1.16/17)	Advisory		Advisory	
Cash Handling (2.16/17)	Reasonable	-	1	2
Data Quality (15/16) (3.16/17)	Reasonable	-	1	2
Housing Rent Accounting and Reconciliation (4.16/17)	Partial	-	3	3
Implementation of Business Performance Review actions – Democratic Services (5.16/17)	Reasonable		1	2
Workforce Planning (6.16/17)	Advisory		Advisory	
Grant audits	Complete – no report required			
Planning and Building 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
Payroll (11.16/17)	Reasonable	-	1	5
Barrier Controlled Parking Project (12.16/17)	Advisory		Advisory	
PCI Code Of Conduct Compliance (13.16/17)	Partial	2	1	1
Financial Management and Main Accounting (14.16/17)	Reasonable	-	1	1
Allocations, Lettings and Voids (15.16/17)	Reasonable	-	3	2
Commercial Rental Income (16.16/17)	Substantial	-	-	1
Lintons Lane (17.16/17)	Advisory		Advisory	
Revenues (18.16/17)	Substantial	-	-	-
Procurement (19.16/17)	Partial	3	6	1
Benefits – (20.16/17)	Substantial	-	-	3
Data Quality –(21.16/17)	Partial	-	4	1
Agency Staff 22.16/17)	Reasonable	-	3	3

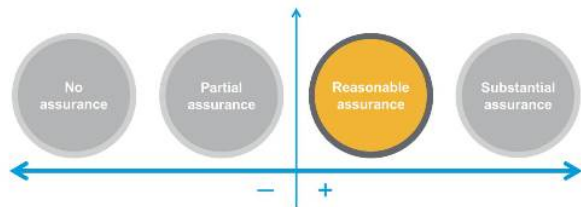
We use the following levels of opinion classification within our internal audit reports. Reflecting the level of assurance the board can take:



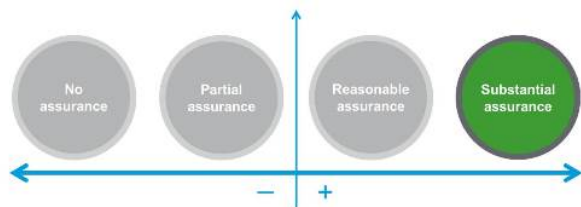
Taking account of the issues identified, the board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Urgent action is needed to strengthen the control framework to manage the identified risk(s).



Taking account of the issues identified, the board 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).



Taking account of the issues identified, the board 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).



Taking account of the issues identified, the board 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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