

# Annual Internal Audit Report & Opinion

2019 - 20

Epsom & Ewell Borough Council



## Southern Internal Audit Partnership

Assurance through excellence  
and innovation

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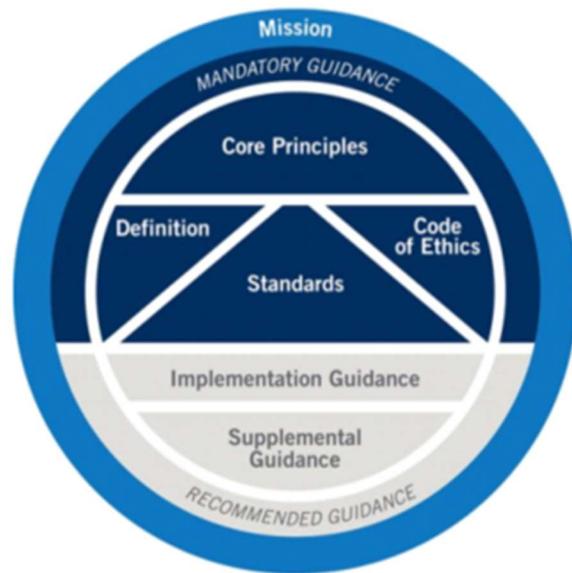
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## 1. Role of Internal Audit

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 organisation’s 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 organisation’s objectives.

## 2. Internal Audit Approach

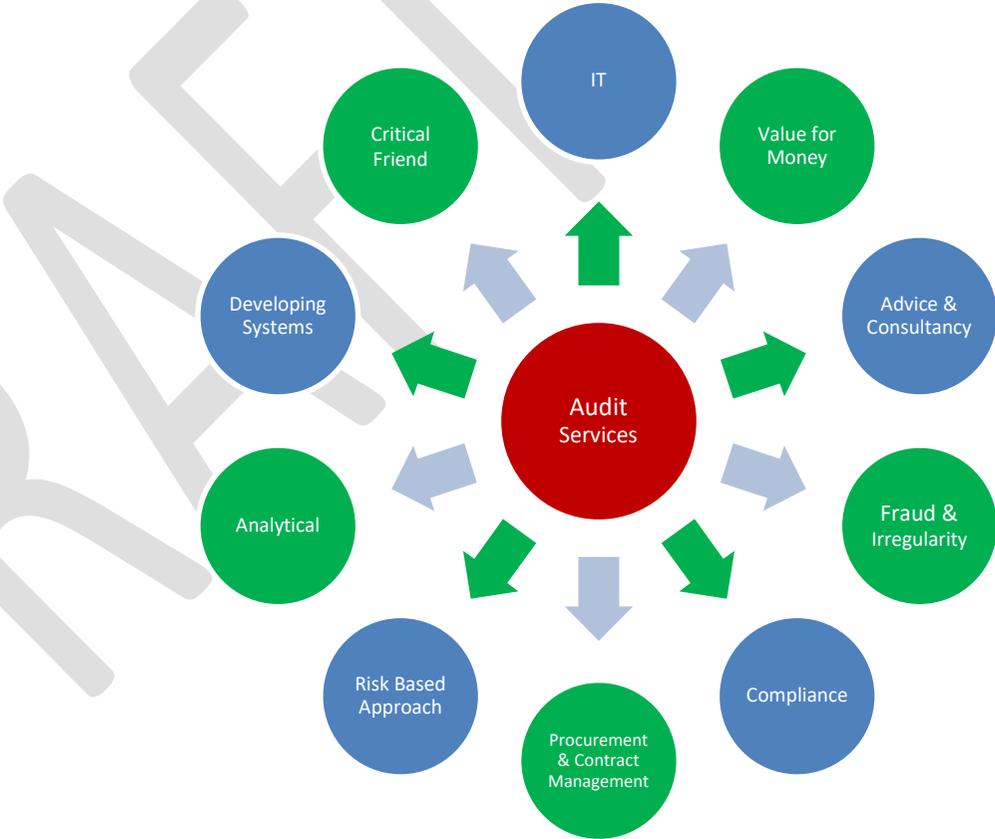
To enable effective outcomes, internal audit provides a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- Level of assurance required;
- Significance of the objectives under review to the organisation’s success;
- Risks inherent in the achievement of objectives; and
- Level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



### 3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of the Council's audit need that has been covered within the period.

The significant impact and subsequent challenges posed by the coronavirus pandemic (Covid-19), both to the way we work and the delivery of the Council's services, has resulted in some delays in completing planned 2019/20 reviews, particularly those planned for completion in the latter part of the year. However, this delay has not inhibited my ability to provide an opinion on the operation of the organisation's framework of risk management, governance, and control during 2019-20.

#### *Annual Internal Audit Opinion 2019-20*

*"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Epsom & Ewell Borough Council's internal control environment.*

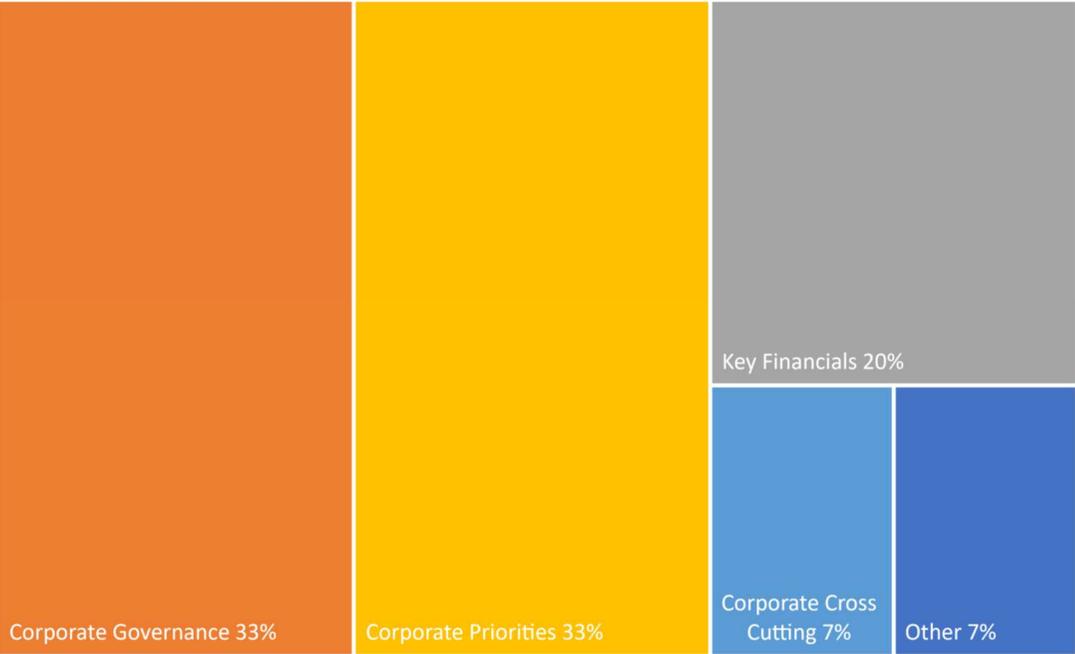
*In my opinion, Epsom & Ewell Borough Council's framework of governance, risk management and control is 'Adequate' and audit testing has demonstrated controls to be working in practice.*

*Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."*

#### 4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.

Reviews by Theme



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2019-20 Internal audit plan, approved by the Audit, Crime & Disorder and Scrutiny Committee in April 2019, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion internal audit have undertaken 15 reviews during the year ending 31 March 2020.

Due to the breadth of audit coverage across the organisation and the impact of COVID-19, there has been an inevitable impact on the delivery of those reviews scheduled for completion within the quarter four portfolio allocations which has resulted in the cessation of planned audit work.

The revised 2019-20 internal audit plan has been delivered with the following exceptions:

- Work had commenced but halted prior to completion either due to availability of staff or difficulties in auditing the service area virtually in respect of:
  - Cultural Venues & Facilities

The original internal audit plan agreed by the Audit, Crime & Disorder and Scrutiny Committee on 16 April 2019 included two IT reviews:

- Data Management; and
- Payment Card Industry Data Security Standards

Due to ongoing initiatives during the year, officers within the Council requested that these reviews be deferred. With IT being a fundamental component of the Council's control environment, it is imperative that an adequate level of assurance is attained over the framework of governance, risk, and control in which it operates.

As such following the request for deferral the Southern Internal Audit Partnership agreed that an assurance mapping exercise would be undertaken to assess what other sources of assurance the Council receives that IT controls are operating effectively. However, whilst the scope of the work was agreed, due the impact of COVID-19 there was no capacity within the organisation to support the audit review, and consequently the assurance mapping exercise was not undertaken.

Provision has been incorporated within the 2020/21 audit plan to ensure an adequate level of IT assurance is provided. The absence of such assurance for a second year may affect our ability to provide an overall opinion on the Councils framework of governance, risk and control for 2020/21.

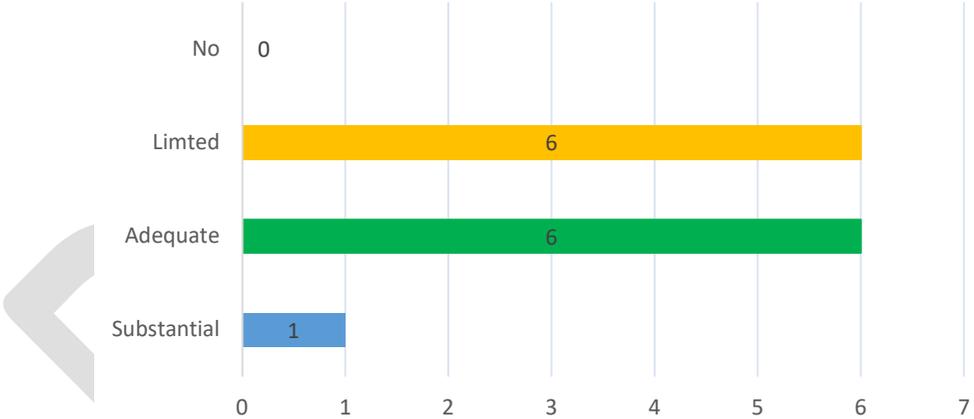
The opinion assigned to each internal audit review on issue is defined as follows:

**Substantial** – There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be of a high standard and few or no material errors or weaknesses were found;

**Adequate** - While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;

**Limited** - Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk; or

**No** - Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.



\*2 reviews did not culminate in an audit opinion, one position statement and one related to the Conservators Accounts sign off.

## 5. Key Observations

There were no 'No Assurance' opinions issued during the year. However, there were some areas identified that provide challenge to the organisations risk environment:

**Building Control** - We were able to confirm that Building Control fees were appropriately documented, approved, and published and that charges made were in accordance with published fees. However, there was found to be no clear ownership or accountability of invoicing and debt collection responsibilities between the Building Control Team and Administrative Support, resulting in the risk of inaccuracy and inefficiencies through omission and / or duplication in process.

Our review identified discrepancies between the building control system (Uniform) and the financial accounting system (Civica) in relation to fee income due and received. There is currently no income reconciliation undertaken between the two systems. A number of inaccuracies were also found within records held on Uniform increasing the risk of data quality / integrity and reliance that can be placed on management information attained from the system.

**Accounts Receivable & Debt Management** - The council were found to be raising invoices in a timely manner and income received is promptly matched against the relevant invoice. However, the procedure for undertaking the bank reconciliation had not been documented and therefore in the absence of the Senior Financial Administrator this task cannot be effectively covered, additionally there has been no monthly sign offs for the bank reconciliation since April 2019.

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.

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.

**Procurement** - Contract Standing Orders, procurement rules and guidance are available to all staff and the Council are using the 'Pro-Contract system' enabling the progress of procurement projects to be reported to management, with assurance and clarity.

Spend analysis undertaken during our review (over a 12-month period) identified potential areas where aggregated spend has exceeded procurement thresholds and for which no contracts are in place. The Council currently have no system or process in place to monitor or identify aggregated spend.

The Council's published Procurement Strategy document is out of date and in need of review

**Contract Management** - 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, it was apparent through review of expenditure from the corporate creditors system not all contracts are currently recorded. This had impact on compliance with the Local Government Transparency Code.

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.

A Contract Manager has now been appointed to fulfil a corporate support role that will provide direction, guidance and consistency on good contract management.

**Community & Wellbeing Centre** - 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.

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).

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.

**Air Quality Monitoring** - Management and operational roles and responsibilities for air quality management had been clearly assigned to the Environmental Health Manager. However, there was 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 submission to DEFRA.

The 2019 Annual Status Report (ASR) had 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 had not been actioned as part of the 2017 ASR. Documentation had not been retained in all areas to substantiate data used in the ASR and other key reports.

The Air Quality Action Plan (AQAP) for one area reviewed found actions were not being regularly reviewed by a steering group as recommended by DEFRA, despite intentions to do so being stipulated in the 2010 published plan.

## 6. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within 'the Standards'.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015.

In considering all sources of evidence the external assessment team concluded:

**“It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to all of the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).**

**There are no instances across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.”**

In accordance with PSIAS, annual self-assessments have been completed since the external inspection concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

## **7. Disclosure of Non-Conformance**

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires 'an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation' I can confirm endorsement from the Institute of Internal Auditors that:

**‘the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’**

There are no disclosures of Non-Conformance to report.

## 8. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2019-20 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- A self-assessment against the Public Sector Internal Audit Standards.

## 9. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Performance Indicator	Target	2018-19 Actual	2019-20 Actual
Percentage of revised internal audit plan delivered	95%	n/a	100%
Positive customer survey response			
<ul style="list-style-type: none"> <li>• Epsom &amp; Ewell Borough Council</li> </ul>	90%	n/a	100%
<ul style="list-style-type: none"> <li>• SIAP – all Partners</li> </ul>	90%	99%	98%
Public Sector Internal Audit Standards	Compliant	Compliant	Compliant

*Customer satisfaction has been assessed through response to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process throughout the year.*

## 10. Acknowledgement

I would like to take this opportunity to thank all those staff throughout the Council with whom we have made contact in the year. Our relationship has been positive, and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman  
Head of Southern Internal Audit Partnership  
August 2020

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## 2019-20 Audit Reviews and Opinions

Substantial Assurance	Adequate Assurance	Limited Assurance	No Assurance
<ul style="list-style-type: none"> <li>○ Capital Accounting</li> </ul>	<ul style="list-style-type: none"> <li>○ Asset Management (Property Assets)</li> <li>○ HR &amp; Organisational Development</li> <li>○ Fraud &amp; Irregularities</li> <li>○ Information Governance</li> <li>○ Main Accounting</li> <li>○ Local Plan</li> </ul>	<ul style="list-style-type: none"> <li>○ Procurement</li> <li>○ Accounts Receivable / Debt Management</li> <li>○ Air Quality Monitoring</li> <li>○ Building Control</li> <li>○ Community &amp; Wellbeing Centre</li> <li>○ Contract Management</li> </ul>	