



EPSOM AND EWELL BOROUGH COUNCIL

Internal Audit Progress Report

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

November 2016

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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 REPORTS 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
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

3 LOOKING AHEAD

Assignment area	Timing per approved IA plan 2016/17	Status
Planning and Building Control (7.16/17)	May 2016	Draft report issued 6 October 2016
Car Parking – On Street and Car Parks	July 2016	Deferred start date at management request to October 2016
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	To start in November 2016
Governance	October 2016	To start in November 2016
Payroll	November 2016	
Risk Management	November 2016	
PCI Code Of Conduct Compliance	November 2016	
Data quality (16/17)	December 2016	
Creditors And Ordering	December 2016	
Council Tax (Revenues)	January 2017	
Benefits	January 2017	
Rental Income	February 2017	
Implementation of Business Performance Review actions – Homelessness	February 2017	
Private Sector Leasing Scheme	March 2017	
Procurement Of Agency Staff	March 2017	
Procurement	March 2017	
Grant audits	As required	Complete – no report required

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

Assignment	Opinion issued	Actions agreed		
		H	M	L

No 2016/17 final reports have previously been issued.

FOR FURTHER INFORMATION CONTACT

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APPENDIX B: EXECUTIVE SUMMARIES

Assignment: Facilities Management Contract Review (1.16/17)		Opinion:	Advisory
<p>The key findings from this review are as follows:</p> <p>a) Our fieldwork highlighted a number of challenges around the management of the contract and the performance of the supplier.</p> <p>b) There were weaknesses in the way the contract was set up. In particular, around the design of the key performance indicators (KPIs) and the absence of in-built performance incentives and sanctions needed to influence supplier behaviour.</p> <p>c) The documentation we were provided showed that there were areas of non-conformance with the contract by the supplier alongside areas of underperformance. The supplier's reported performance on planned preventative maintenance (PPM) work was particularly weak. We also noted that the commercial viability of the contract to the supplier may be under threat as the contract value is less than indicated at the time of award.</p> <p>d) Our advice to the Council is that there should be greater focus on ensuring the supplier meets its obligations within the contract. As part of this, the weaknesses in performance reporting will need to be addressed. In order to achieve this, there will need to be stronger governance and performance management of the contract. However, we note that contract management interventions rely on the supplier reporting accurately against the service it delivers. The Council should prioritise getting an accurate picture of variable costs.</p> <p>e) During the fieldwork, we obtained feedback that the weaknesses in contract management may be largely down to gaps in contract management resource. We acknowledge that this view has some merit. However, the root cause of challenges faced by the Council is mainly around taking action to ensure that the contractor carries out their commitments within the contract.</p>			
	Agreed Management Action	Implementation Date	Manager Responsible
1	<p>The Building Surveyor has requested a monthly report with a full scope of the service as set out in the contract to improve contract management.</p> <p>This will include additional KPI information, details of the monthly and variable work orders, Health and safety information and clarity on non-compliant KPI's</p> <p>A FM Contract Management Group has been established who have responsibility for developing an action plan to address the issues identified in this review for both the short and medium term issues</p>	<p>June 2016</p> <p>December 2016</p>	FM Contract Management Group

2	<p>The Council should request that the supplier completes the work needed to determine the required level of PPM work based on the condition of the estate. The supplier and contract manager should then formally meet and agree a programme of work against which performance can be managed.</p> <p>In addition, the Council should request performance reporting information to include further detail on PPM works, including a breakdown of each monthly KPI score to determine the effectiveness and efficiency of work carried out in the area.</p> <p>A schedule has been requested with dates and type of work.</p> <p>Kier have been asked to supply a breakdown of monthly PI's on PPM work.</p> <p>In future need to agree PPM work in advance.</p>	<p>Immediately</p> <p>August 2016</p> <p>August 2016</p> <p>December 2016</p>	FM Contract Management Group
3	<p>The Council should consider strengthening protocols for managing variable work orders.</p> <p>The process for signing of any additional work will be reviewed by the Group</p>	December 2016	FM Contract Management Group
4	<p>The Council will:</p> <ul style="list-style-type: none"> • Agree formal terms of reference for the monthly and six monthly meetings specified in the contract. The terms of reference should include the objectives of the meetings, such as reviewing the supplier's performance against key obligations within the contract. • Set up a working group (or similar function) where feedback on the supplier is pulled together and suggested actions are agreed. The outputs of such a working group meeting should be fed into formal meetings with the supplier. • Carry out contract management awareness induction sessions for members of the working group so that they are fully informed on the contract specification and supplier obligations that relate to their service areas. • Nominate a senior responsible officer who has overall responsibility for the contract and should be the point of contact for the escalations of key issues. In addition, the senior responsible officer should attend the six monthly meetings with senior representatives from the supplier. • Agree the scope of user satisfaction surveys and instruct the supplier to carry out surveys every six months in accordance with the contract. <p>This will form part of the action plan for the group.</p>	December 2016	FM Contract Management Group

5	The Council will monitor the value of the contract to the supplier. As part of this, it should track how much facilities management work goes to other suppliers. This will form part of the Action Plan for the Group	December 2016	FM Contract Management Group
6	The Council should monitor the risk of cost escalating as a result of the condition of the estate. The Corporate Property Group is identifying all maintenance costs and will be looking at the costs and usage of all properties with a view to developing a strategy for the Council's property portfolio.	June 2017	Corporate Property Group
7	The Council will review provisions within the contract and explores their use in improving performance and holding the supplier to account. This will form part of the Action Plan for the Group.	December 2016	FM Contract Management Group
8	Where possible, the Council should consider introducing penalties, sanctions and incentives to changes to the contract during its current term. In the longer term, the Council should use the experience gained from this contract to decide the structure for the new contract and include this in the specification for when the contract is up for renewal in 2018. This will form part of the Action Plan for the Group	December 2016	FM Contract Management Group

Assignment: Cash Handling (2.16/17)	Opinion:	Reasonable
<p>The key findings from this review are as follows:</p> <p>a) Corporate cash handling procedures have been drafted but are yet to be finalised. These are particularly required to prescribe standards and define those controls expected across the organisation. We have reviewed the draft procedures and these satisfactorily prescribe controls in respect of cash receipting, security and banking. With reference to 2 specific points in the drafted procedures, further detail and prescriptive control require definition:</p> <ul style="list-style-type: none"> ○ Transfers of cash between officers; and ○ The checking and verification of voided amounts recorded on till rolls. <p>b) Cash continues to be received by the Council, although in a much smaller amount. We tested these areas (gypsy site payments, market traders and cemeteries) and directly observed controls in operation at the cash receipting station in the closed cash office which is used to process transactions received in the town hall 'drop box' From our testing of these cash transactions, interviews with responsible managers and direct observation of cash receipting and reconciliation processes we are assured that there is generally sufficient control in cash handling, security and documentation with an adequate separation of duties. Our work in this respect did highlight two exceptions. In particular:</p> <p>c) There was cash received in respect of electricity energy cards purchased by customers on Epsom's gypsy sites. These cards are held and sold by a local store on behalf of the Council. The cash received is recorded in a local sales record and passed to a Housing Officer on a regular basis. A letter of receipt is subsequently issued to the store's</p>		

owner to confirm receipt and this letter records details of the cash income transacted. We note from our sample that these letters of receipt have not been issued for transactions since February 2016 (3 months). The absence of receipted records weakens the audit trail and fails to negate the risk of error or fraud occurring.

d) We noted that when occasional 'cash' payments are received by the Cemeteries Officers these are usually significant amounts and are not being processed through the drop box but instead are being taken directly to the cashier (in the closed cash office) to receipt. Current control requirements are that all cash income received must be processed through the drop box (as a cashiering officer is not regularly available). Going forward all internal departments will be reminded of this constraint.

e) Cash and cheque payments received through the Council's drop box at the town hall are actively checked on a daily and monthly basis by the Finance Team. We satisfactorily verified these records and note that summary reports are produced for the Head of Finance on a regular basis. These scrutiny controls continue to provide assurance that levels of cash and usage trends are being actively monitored.

	Agreed Management Action	Implementation Date	Manager Responsible
1	The draft corporate cash handling procedures will be updated to provide prescriptive definition of those controls required in respect of: <ul style="list-style-type: none"> transfers of cash between officers (total values to be evidenced by the signatures of the officers involved); and the checking and verification of voided amounts recorded on till rolls. (Low) 	31 July 2016	S Overall
2	All income received by officers in respect of electricity cards for gypsy site customers will be recorded and detailed in a letter of receipt and issued within five working days. (Medium)	30 September 2016	K Ryan
3	All internal cash receipting (from source departments) must be processed via the drop box. All internal departments will be reminded of this requirement and the Exchequer Services Officer will continue to monitor this arrangement going forward. (Low)	31 July 2016	S Overall

Assignment: Data Quality (3.16/17)	Opinion:	Reasonable
<p>This reviewed was from the 2015/16 plan.</p> <p>The key findings from this review are as follows:</p> <p>a) At the start of the 16/17 financial year, the Housing Team moved from operating five significantly manual databases (excel spreadsheets) to a singular comprehensive housing case management system. Whilst it is clear the benefits of using such a system, the Housing team should undertake testing to ensure that that all data has been transferred correctly and evidenced as such.</p> <p>b) When the Customer Relationship Management (CRM) system sends the Transport & Waste Management the number of missed bins for the month, there is currently limited information around the reasoning as to why the bins are being missed (blocked road, human error etc.). This therefore does not allow management to obtain a clear picture as to why the bins are being missed, and as such implement constructive actions going forward.</p> <p>c) The maintenance of the waste management spreadsheet, which is used to submit monthly performance indicators is currently a significantly manual process, which not only increases the likelihood of errors but requires daily monitoring by the Transport & Waste Management Manager. As such the Transport & Waste Management Team is currently in the process of implementing an integrated waste management system by August 2016. Therefore assurance is required to ensure that date accurately migrates to the new system.</p> <p>d) We confirmed the Data Quality Strategy is presented on both the intranet and EEBC website and as such readily available for all relevant stakeholders. Furthermore, as part the monthly performance data verification process, we confirmed that responsible owners must confirm adherence to the strategy when submitting backing data for their respective KPI.</p> <p>e) As outlined in the Data Quality Strategy, the data verification process requires responsible owners to provide source documentation of their monthly PI submission figures (should they be selected), the data originator when submitting the data verification form must sign to confirm the Data Quality Strategy has been complied with. From our review we confirmed a sample of verification forms received by the Consultations & Communications Team were in line with the Data Quality Strategy, having backing evidence for all performance indicators presented which agree back to the monthly PI report.</p> <p>f) To ensure the strategy is being implemented, an action plan has been developed which outlines targets in relation to data quality which must be completed in a set time frame, whereby responsible owners are also assigned to each target. We confirmed that the action plan is up to date, with all actions having an assigned responsible owner.</p> <p>g) The monthly and quarterly performance indicators completion check list outlines all individual performance indicators and their responsible owner. We reviewed the performance indicator report produced as at February 2016 and confirmed that all performance has an assigned responsible owner and that performance against each indicator was clearly outlined.</p> <p>h) The C&C Team verify a sample of data on a monthly basis by sending out verification forms to data originators to provide backing documentation that data is accurate. Verification forms are completed by the KPI originator and the Head of Service is also required to provide assurance that data is obtained in line with the data quality strategy. We reviewed the performance management data verification forms in relation to the performance indicators selected to "deep dive" as part of this review and confirmed that: .</p> <ul style="list-style-type: none"> - All were signed by Data originators confirming adherence with 2015/16 definition of indicator; - All were signed (again by the Data Originator) confirming adherence with Data Quality Strategy); - The Head of Service for each respective head had reviewed/approved the PI verification and evidenced as such via sign off; and - All submissions were approved by the C&C team. <p>Furthermore, as per an IA recommendation from our 2014/15 audit, we noted that all data verification forms now included supporting evidence such as source data to confirm the submissions are accurate.</p>		

i) The C&C Team developed a progress report schedule for 2015/16 whereby four quarterly reports are submitted to the relevant committees. We obtained and reviewed minutes of the Strategy and Resources Committee meeting held on 27 January 2016, Social Committee held on 28th January 2016, Leisure Committee held on 26 January 2016 and Environment Committee held on 26 January 2016, and confirmed progress reports had been submitted to these in a timely manner.

	Agreed Management Action	Implementation Date	Manager Responsible
1	The Housing Team will undertake testing to ensure data has been correctly transferred onto new housing case management system. (Low)	30 September 2016	Adama Roberts
2	Post implementation of the new waste management system will include testing of data quality to ensure that reporting continues to be accurate. (Low)	30 September 2016	Adama Roberts
3	Transport & Waste Management team will work with CRM in investigating ways of improving the data received from missed bin complaints, such as implementing a basic questionnaire issued to residents who raise such a complaint, to note any potential reasons as to why the bin collection was missed, such as road works on the road, not leaving bins correctly on the pavement etc, in order to help the Transport & Waste Management team in achieving the missed bin target rate of less than 0.09% bins missed. (Medium)	30 September 2016	Adama Roberts

Assignment: Workforce Planning (5.16/17)	Opinion:	Advisory
<p>The key findings from this review are as follows:</p> <ul style="list-style-type: none"> a) Currently, the HR Team does not have any form of workforce plan in place. Based on the size and static nature of workforce at the Council creating an annual plan may not represent the most effective use of the limited resources at the organisation. There is a risk that without any level of formal workforce planning that Council may not have the necessary staff in place to achieve its short-term and long-term objectives, could commit excessive expenditure through filling posts with temporary staffing and may lose the requisite job knowledge where there is no handover between postholders. b) The Council takes a more reactive as opposed to a proactive approach to meet the employment demands of the Council. Areas like succession planning are often carried out on a case by case basis and in an ad hoc manner. As a result, the Council is not always taking a strategic approach to establishing future workforce needs. c) The Council does not formerly monitor the composition of its workforce. Without any form of monitoring this prevents the organisation from actively carrying out succession or retirement planning. Through the use of quarterly planning meetings it would be beneficial to create workforce profiles for each department. d) We noted that one of the key issues facing the HR department is a lack of resources. As a result of this staffs at all levels have to perform administrative duties in order to manage the day to day work load at the Council. This has prevented the HR team from effectively being able to take a more strategic approach to managing 		

the HR function at the Council.

	Agreed Management Action	Implementation Date	Manager Responsible
1	<p>The current resources within HR are extremely stretched (1 Advisor down). With a full complement the aim for the HR Advisors to establish departmental quarterly meetings to improve workforce planning.</p> <p>Actions raised from quarterly meetings will be recorded within an action log for each department. These should be followed up on in each subsequent quarterly meeting until they have been implemented.</p> <p>Further discussion at LT has outlined WP as a priority and HoS have agreed to review their own areas independently initially with HR input to come at a later stage. HR will provide initial data to HoS on turnover, retirement , age profile etc.</p>	<p>31 March 2017</p> <p>This will be dependent upon making an appointment to the team prior to Christmas 2016</p>	Shona Mason
2	<p>The need to be more proactive is recognised and the Council are taking action through the development of an Organisational Development Plan 2016-2020 which includes a range of initiatives. There are six themes one of which includes Culture, Structure & Job Design to support with reviewing future workforce need. The creation of a template will be added to the Organisational Development Plan.</p> <p>Further work with the LT is to be undertaken as described above</p>	31 March 2017	Shona Mason
3	<p>A further review of workforce information to be presented at Leadership Team meetings is due to take place in Autumn 16. As part of the review HR will aim to provide this information to service areas on a quarterly basis depending on resourcing levels within the HR Team.</p> <p>Annual workforce statistics such as age, gender, disability etc are reported to Committee. HR will seek to enhance this data as suggested.</p>	31 March 2017	Shona Mason

Assignment: Business Process Review – Democratic Services	Opinion:	Reasonable
<p>The Council's Committee reporting and support process provided by the Democratic Services Team was subject to an internal Business Process Review (BPR) in 2015 which resulted in the Members Mobile Project. This was agreed by the Strategy and Resources Committee on 24th March 2015.</p> <p>The key findings from this review are as follows:</p> <p>a) We satisfactorily verified that the business proposal was defined in terms of outcomes and benefits and that this was agreed by the Strategy and Resources Committee on 24th March 2015. The agreed Business Case identified this project as a "spend to save" proposal with the objective to cover costs within 5 years.</p>		

- b) We examined the cash flow forecast attached to the project and verified that the total expenditure (capital & revenue) for the five year period was projected to be £155,800. Savings of £182,000 were identified for the same period. A net saving overall of £26.2K was therefore anticipated.
- c) One of the key benefits anticipated from the delivery of the paperless system was a saving in paper and postage expenditure. This was estimated at £10,000 per annum. We have been unable to verify this estimate from expenditure records provided to us. The total corporate spend for paper within the print room is £8000 and estimates supplied to us by the Print Room Manager are that paper and postage per committee cycle was circa £700 (£2,800 per annum).
- d) If a £3,000 figure is supplemented for the £10,000 estimate originally included in the spend to save proposal, the original projection of a £26,000 overall saving in 5 years is turned into a small loss of £8,800.
- e) We satisfactorily verified that there is clear evidence of systematic and well documented project management and phased implementation of new systems and associated workflows. This has been accompanied by evidence of good governance and scrutiny of progress from a project forum where action issues and risks were fully considered.
- f) Management records document the progress of implementation through 85 actions. As at September 2016 there were 22 actions still in progression. We note that lean workflow processes managed through the Mod Gov software are in operation for three Committees, with a fourth about to start. There is currently no projected timeline for the phased implementation of these new workflow processes across the remaining eight Committees although it is anticipated that these will occur in the near future. In this respect a management action has been agreed.
- g) Feedback from Officers is very positive regarding the efficiencies obtained from the project. Implementation has gone smoothly and the response from members re the accessibility, flexibility and efficiency of the paperless system has been very good.
- h) Annual cost savings of £36,000 per annum were anticipated. The two most significant elements of cost savings earmarked (representing 94% of savings - £34,000) were:
 - The reduction of 0.6 FTE staff from the Democratic Services Team (£24,000) from the use of leaner support processes;
 - The savings on paper and printing (£10,000).

In both cases these have been considered to have been achieved. In respect of the print costs specifically, these are hard to quantify given they form part of wider budgets for all Council printing, however costs of paper and postage have reduced and there has been a saving on staff time as a result of no printing.

i) We examined current budgets and discussed with Officers. We found that:

- o The Democratic Service's Teams salary budget was accordingly reduced to reflect the anticipated efficiencies arising from the project.
- o Democratic Services expenditure on paper and postage is not discreetly captured in accounting systems. It is included in total print room costs which are recharged as a corporate overhead at the year-end. The total corporate expenditure on paper for 16/17 is however forecast to remain at levels similar to that of 2015/16 and in this respect further investigation is merited.

	Agreed Management Action	Implementation Date	Manager Responsible
1	<p>A post implementation review will need to revisit the initial estimation of paper expenditure savings set at £10,000 within the original spend to save business case.</p> <p>The spend to save rationale and model projections will need to be evidenced against historic income and expenditure.</p> <p>A post implementation review will take this analysis forward and will be conducted before the year end</p>	31 March 2017	S Young
2	A clear timetable of phased implementation of new lean workflows for all committees will be scheduled and monitored going forward.	30 November 2016	S Young
3	As expenditure on paper is remaining constant within the organisation for 2016/17, contrary to an anticipated reduction arising from the implementation of paperless committee systems, further investigation is merited.	31 December 2016	S Young

Assignment: Rent Account Reconciliations (4.16/17)	Opinion:	Partial
<p>The key findings from this review are as follows:</p> <p>a) Most of the cost of the bed and breakfast accommodation and the gypsy site rents is paid through housing benefit claims. Some temporary accommodation tenants are required to pay part of the rental cost of their accommodation to the Council. There are charges for water and sewage for the Gypsy Site pitches which are not paid by Housing Benefit and which are collected in cash by the Gypsy Liaison Officer. Some of the Council's tenants are now in receipt of Universal Credit, which is replacing Housing Benefit. This may create new demands on the service if it leads to an increase in rent arrears.</p> <p>b) The Council uses the Academy system provided by Capita for its housing benefit and rent accounts. However there have been considerable problems with the rent accounts system which has led to a high level of manual working. The system receives automatic housing benefit payments but all payments by tenants have to be input to the rent accounts manually. The system does not allow older accounts to be closed meaning they appear to be in continually growing arrears. The Housing Operations Manager has been asked to research alternative rent accounting systems.</p> <p>We found the following controls to be adequately designed and operating as expected, subject to the issues listed in the Action Plan below:</p> <p>c) Cash collections in respect of the Greenlands Gypsy Site pitches are recorded and banked through the cashiering drop box. We confirmed for a sample of twenty weeks that the collections had been receipted by the Cashiers from the Icon cash collection system.</p> <p>d) Rent received through the Icon system, by online payment or through the drop box, is posted to the Rent Accounts system manually. We verified all 45 payments for bed and breakfast received on three days that they had been posted to the correct rent account. We verified for a smaller sample that payments recorded in the rent accounts relate to payments received in Icon.</p>		

e) We confirmed that housing benefit received into the rent account system is reconciled to the housing benefit system for each week.

f) Arrangements have been made with Capita, the provider of the Academy system, for the closure of historic accounts and for the system to charge rent per day instead of per week, which requires manual adjustment at the end of tenancies. This depends on the Council upgrading the system which is planned for the end of August 2016.

g) We confirmed that recent rent accounts are now opened and closed in Academy.

	Agreed Management Action	Implementation Date	Manager Responsible
1	The arrangement for the collection of gypsy site payments will be reviewed to look for an approach that can always avoid cash being held by the Gypsy Liaison Officer overnight or over the weekend. (Low)	Immediate	Annette Snell/Kevin Ryan
2	Documentation will be considered that can provide a clear easy to maintain record of payments made by gypsy site tenants that can be made available for them if required, such as a clear card system showing debt per week and payment received per week which could be maintained by the Gypsy Liaison Officer. (Low)	September/October 2016	Annette Snell/Kevin Ryan
3	A weekly reconciliation of payments received through the cash receipting system to payments uploaded into Academy will be set up. (Medium)	September/October 2016	Annette Snell/Head of H&ES
4	The arrears procedure will be revised to specify at what point the first arrears letter should be sent. This will take account of the financial circumstances of the tenant. (Medium)	Oct/Nov 2016	Juliette Martin/Dammika Vithanage
5	Staff capacity to pursue arrears will be reviewed in the light of the functionality and administrative requirement of the upgraded Academy Rents system, the planned replacement rent accounting system and the consequences of the introduction of Universal Credit. (Medium)	Oct/Nov 2016	Juliette Martin/Dammika Vithanage
6	Until the Academy Rents system charges on a daily basis or a new rent system is installed and able to do this, flagging of items needing input and having been input will be made clearer in the diary used to record closed accounts. (Low)	Oct/Nov 2016	Annett Snell