



REPORT OF:	HEAD OF CORPORATE SERVICES
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TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	26 th March 2014

WARD (S) AFFECTED:	ALL
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SUBJECT:	INTERNAL AUDIT STRATEGY AND AUDIT PLAN FOR THE PERIOD 2014/15
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RECOMMENDATIONS:

- (i) to endorse the Internal Audit Strategy and Audit Plan for 2014/15 as set out at Annex 1.

SUMMARY:

Under the Council's Constitution the Overview and Scrutiny Committee fulfils the role of the Council's Audit Committee. As part of that accountability the Committee are responsible for setting and monitoring the Internal Audit Strategy and the annual Audit Plan.

In endorsing the Strategy and Audit Plan the Committee will need to consider a number of key questions (paragraph 4) in relation to the scope of the proposed audits and resources allocated.

STATUTORY POWERS

1. Under the *Local Government Act 1972* and the Accounts and Audit Regulations, the Council is required to maintain an independent internal audit function which ensures that the Council operates within the law and has effective control procedures in place to ensure that public money is spent effectively and efficiently.

ISSUES

2. Under the code of practice that governs how Local Authorities should undertake their Internal Audit function, it is recommended best practice that Local Authorities establish an Internal Audit Strategy and Audit Plan, which sets out a programme of audit that will ensure that all areas of key risks are reviewed on a regular basis.
3. Under the Council's Constitution consideration of the Internal Audit Strategy and Audit Plan is delegated to the Overview and Scrutiny Committee.

4. The purpose of this report is therefore to seek the Committee's endorsement to a revised Internal Audit Strategy, and more specifically approve the detailed Audit Plan for the 2014/15 financial year contained within it. In doing that the Committee should ask themselves the following questions.
 - Does the internal audit plan for 2014/2015 (Appendix A) reflect the areas that the Overview and Scrutiny Committee believes should be covered as priority?
 - Does the Internal Audit Strategy (Appendix B) cover the organisation's key risks as they are recognised by the Overview and Scrutiny Committee?
 - Is the Overview and Scrutiny Committee satisfied that sufficient assurances are being received to monitor the organisation's risk profile effectively, including any emerging issues / key risks not included in the strategy or annual plan?
5. The revised Audit Plan set out on *Annex 1* has been endorsed by the Corporate Governance Group and the Management Team.

OPTIONS

6. The Committee has two options open to it:-
7. Option 1: To endorse the Internal Audit Strategy and Audit Plan as set out.
8. Option 2: To defer the approval and ask for further specifically identified work to be done on the plan. This will delay the approval and given the current cycle of Committee meetings would cause operational and resourcing problems for Baker Tilly in delaying the possible start of the 2014/15 programme.

LEGAL IMPLICATIONS

9. There are no direct legal implications arising from this report.

FINANCIAL IMPLICATIONS

10. The basic cost of funding the Audit Plan is allowed for within the Council's base budget and financial projections for the coming and future years.
11. The Contract charges the cost of audit on a daily rate basis. The Contract allows for this cost to be inflated annually using the UK Consumer Price Index.
12. The Contract also provides for the provision of other more specialist audit support, such as Computer and Contract Auditing. These are also charged on a fixed daily rate specified in the Contract.
13. The cost of any additional work, beyond that provided for within the Audit Plan, has to be funded from any service area that requires extra support from the Auditors.

EQUALITIES IMPLICATIONS

14. There are no equality issues arising from this report that need to be brought to Members attention.

CORPORATE IMPLICATIONS

15. The Internal Audit function is a key element within the Council for the management of an effective corporate governance arrangement

CONSULTATION

16. As part of the consultation process the draft has been discussed with officers, the Corporate Governance Group, Management Team.

POLICY FRAMEWORK

17. There are no policy issues to raise as part of this report.

CONCLUSION

18. In proposing the Internal Audit Strategy and Audit Plan consideration has been given to key risks facing the Authority.
19. The compilation of the Strategy and Audit Plan has been undertaken in accordance with professional guidelines and has been endorsed by the Management Team.

Background Papers:

Reigate and Banstead Borough Council

Updated Internal Audit Strategy 2012/2013 - 2014/2015

Presented at the Overview and Scrutiny
Committee meeting of: 26 March 2014

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1 Updating the Internal Audit Strategy

This document sets out the approach we have taken to update your internal audit strategy for 2012/2013 – 2014/2015 and the annual plan for 2014/2015.

1.1 Role of Internal Audit

Internal auditing is 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.

Definition of Internal Audit: Public Sector Internal Audit Standards.

In line with the requirements of the Public Sector Internal Audit Standards (PSIAS), we plan and perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that Reigate and Banstead Borough Council (RBBC) has in place, focusing in particular on how these arrangements help the Council to achieve its objectives. This is achieved through a risk-based plan of work, agreed with management and approved by the Overview and Scrutiny Committee. Our plan is developed to enable us to provide an opinion at year end, which may also be used by the Council to support its Annual Governance Statement.

1.2 Factors influencing Internal Audit coverage

The Council's objectives are the starting point in the development of the audit strategy. We have also considered the Strategic Risks - Quarter 3 Review from December 2013.

Appendix A reflects the range of potential issues that may affect the Council, some of which are included on your risk register. These were used to focus our discussions with management regarding assurance priorities and to determine where internal audit input would be most beneficial.

In preparing the strategy and the annual internal audit plan, we met with the Corporate Governance Group.

The key areas / factors are summarised below.

Key areas discussed and their impact on the 2014/2015 internal audit plan	
1	Regeneration Planning and Monitoring was included in the strategy for 2014/15, but has been removed due to positive assurances in 2013/14.
2	The Supporting Family's scheme will be subject to review and provision of assurance by Surrey County Council, negating the need for a separate audit.
3	Income activities will focus on income from planning and building control, and this will be undertaken in two stages
4	Individual Electoral Registration is being implemented in year and we have included a review to provide assurance over the adequacy of the project to implement.
5	The Council has moved towards greater use of on-line payments and we will provide assurance over the adequacy of the compliance with Payment Card Industry Standards.
6	Our audit of governance and risk management will focus on the Council's changing approach and management restructure to ensure that the Council will continue to be well governed.

The detailed internal audit plan for 2014/2015 set out at Appendix A, with the updated strategy set out at Appendix B.

As well as assignments designed to provide assurance or advisory input around specific risks, the plan includes:

- Planned assurance on core areas of activity;
- A contingency allocation, which will only be utilised should the need arise, and which will be subject to prior approval by management;
- Time to follow up previous recommendations and actions to provide the Overview and Scrutiny Committee with assurance on the actions taken by management to address previous internal audit recommendations; and
- Audit management, which is used at Partner, Director and Manager level for quality control, client and external audit liaison, preparation of the annual opinion, and attendance at Overview and Scrutiny Committee when required.

2 Assurance Resources

2.1 Your Internal Audit Team

Your internal audit team is led by David Taylor as Head of Internal Audit, supported by Karen Williams.

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing standards.

2.2 Internal Audit Fees

The fee for your internal audit service for 2014/2015 has been communicated via a separate fee note.

2.3 Working with other assurance providers

We intend to meet with KPMG, your External Auditor, to avoid duplication of coverage between Internal and External Audit.

The Overview and Scrutiny Committee is reminded that internal audit is only one source of assurance. Through our plan we do not seek to cover all risks and processes. We will however, seek to work closely with other assurance providers to ensure that duplication is minimised and a suitable breadth of assurance obtained.

2.4 Considerations for the Overview and Scrutiny Committee

- Does the internal audit plan for 2014/2015 (Appendix A) reflect the areas that the Overview and Scrutiny Committee believes should be covered as priority?
- Does the Internal Audit Strategy (Appendix B) cover the organisation's key risks as they are recognised by the Overview and Scrutiny Committee?
- Is the Overview and Scrutiny Committee satisfied that sufficient assurances are being received to monitor the organisation's risk profile effectively, including any emerging issues / key risks not included in the strategy or annual plan?

Appendix A: Internal Audit Plan 2014/2015

Audit	Internal Audit Coverage	Assurance / Advisory	Days Allocated	Proposed Timing
Reviews relating to specific risks				
Implementation of Universal Credit - Impact on Benefits	Changes in the delivery of benefit payments and the impact on the function.	Assurance	8	January 2015 (subject to DWP implementation)
Planning and Building Control	Compliance with requirements and completeness of income collection.	Assurance	10	June 2014
Partnership working -	Review of the governance and working arrangements following the implementation of partnership working with other authorities in 2014.	Assurance	10	December 2014
Compliance with s106 requirements.	To provide assurance that the control framework reflects changes as a result of the introduction of the Community Infrastructure Levy, as well as the general management of s106 income.	Assurance	12	June 2014
Hotel Proposal	To undertake a desktop review to provide assurance that risks associated with the project have been identified and plans are in place to manage them	Assurance	TBC	TBC
Additional Areas for Assurance				
Value for Money Review	To undertake a specific review of a Council function to determine the adequacy of VFM considerations in service delivery. Area to be examined TBC.	Advisory	14	TBC
Core assurance				
IT systems change controls & implementation.	Identified from previous IA Strategy. The Council has determined that this will be a key feature of its "Better Ways of working" approach. This will specifically focus on the implementation of Agresso which was deferred from 2014/15.	Assurance	14	September 2014 (dependent on project completion)
Customer Services	Identified from previous IA Strategy The Better Ways of Working approach has identified that change in the Council's approach to Customers Services is required. A project to address areas for development has been undertaken. Our work will challenge the management of change through a post implementation review, focusing on delivery of the project plans in terms of savings and benefits achieved.	Assurance	10	July 2014
Corporate Governance and Risk Management	An annual review of aspects of governance. Against a backdrop of strong	Assurance	12	January 2015

Audit	Internal Audit Coverage	Assurance / Advisory	Days Allocated	Proposed Timing
	<p>performance and stable management, in 2014/15 we will focus on the Council's management restructure and the establishment of a number of Governance Sub Groups.</p> <p>This will include consideration of the capacity of the management team to govern the Council well through supporting evidence such as performance management, achievement of corporate plans and matters considered by the Council.</p> <p>Will require scoping with the Corporate Governance Group.</p>			
IT Reviews - Payment Card Industry Data Standards Compliance	<p>Reviews of IT areas of risk and management concerns.</p> <p>In 2013/14 this focused on IT and Data Security.</p> <p>In 2014/15 we will focus on Payment Card Industry Data Standards Compliance. Recognising the emergence of this area as a potential risk to Council's, one of our specialisation Technology Risk Solutions Auditors will undertake a review of the Council's controls in this area, bringing specialist knowledge as well as good practice.</p>	Assurance	10	July 2014
Revenues	Rolling coverage and External Audit reliance	Assurance	8	November 2014
Treasury Management	Rolling coverage and External Audit reliance	Assurance	6	November 2014
Capital Accounting and Fixed Assets	Rolling coverage and External Audit reliance	Assurance	8	November 2014
Main Accounting, General Ledger and Reconciliations	Rolling coverage and External Audit reliance	Assurance	8	December 2014
Payroll	Rolling coverage and External Audit reliance	Assurance	10	December 2014
Debtors	Rolling coverage and External Audit reliance	Assurance	8	December 2014
Creditors	Rolling coverage and External Audit reliance	Assurance	8	December 2014
Other Internal Audit Activity				
Contingency	<p>To allow additional reviews to be undertaken in agreement with management based in changes in risk profile or assurance needs as they arise during the year.</p> <p>This may cover the new Individual Electoral Registration if required.</p>	As required	20	N/A

Audit	Internal Audit Coverage	Assurance / Advisory	Days Allocated	Proposed Timing
Follow up	To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.	Follow up	10	January 2015
Management	This will include: <ul style="list-style-type: none"> • Annual planning • Preparation for, and attendance at, Overview and Scrutiny Committee meetings where appropriate • Regular liaison and progress updates • Liaison with external audit and other assurance providers • Preparation of the annual opinion 		20	N/A

Appendix B: Internal Audit Strategy 2012/13 – 2014/15

Risks	Auditable Areas	2012/2013	2013/2014	2014/2015
Risk based reviews				
SR1 - Financial Sustainability If we don't reduce our reliance on government grant funding over the medium term, future decreases in grant levels and the impact of welfare reform could lead to unplanned reductions in services. Service delivery standards and/or failure to deliver on all our corporate objectives.	Implementation of Medium Term Financial Strategy (MTFS)	-	-	-
	Achievement of Savings Targets (now included with financial management)	-	-	-
	Implementation of Universal Credit (Benefits)	-	✓	✓
SR2 – Regeneration If we don't regenerate our key areas then we will not attract inward investment or maximise our income generating abilities and will not provide an environment that sustains our communities or improves the quality of life of our residents.	Regeneration Planning and Monitoring	-	-	✓
	Partnership Governance, Capital Programme & projects (covered regeneration)	-	✓	-
	Asset Management (see also SR4 & SR5)	✓	-	-
SR3 – Young People If we don't work with our public, private and voluntary sector partners to support our young people, especially with training, and employment opportunities, we may face a financial drain on public sector resources and a weaker local economic environment in the longer term.	Young Workers Scheme	-	-	-
	Supporting Family's Scheme	-	-	✓
SR4 – Healthy Living If we don't work with our public, private and voluntary sector partners to promote healthy and active lifestyles, maximising the use of our facilities, we may face a financial drain on public sector resources in the longer term and miss opportunities for resources to be allocated to this are part of public health reform.	See SR 2	-	-	-
SR5 – Ageing Well		-	-	-

Risks	Auditable Areas	2012/2013	2013/2014	2014/2015
If we don't work with our public, private and voluntary sector partners to plan support and provide services for our ageing population, our services may become unfit for or purpose and we may miss opportunities to generate income and demonstrate value for money of all of our services.	See SR 2			
SR6 – Economic development / retention	Regeneration Planning and Monitoring	-	-	✓
If we don't understand local business needs and aspirations then we will be unable to retain current businesses and will not attract new ones, which will result in a less buoyant economic environment.	Planning	-	-	✓
	Capital Programme & Projects (see above)	-	✓	-

Auditable Area	Outline Scope	2012/2013	2013/2014	2014/2015
Core assurance. Including areas where external audit will place reliance on our work				
Asset Management	Identified from previous IA Strategy. Property management is a key aspect for control. However there is no perceived risk in this area. The main assets concerned are the Town Hall and Redhill Town Centre.	-	-	-
IT systems change controls & implementation.	Identified from previous IA Strategy. The Council has determined that this will be a key feature of its "Better Ways of working" approach.	✓	✓	✓
Customer Services	Identified from previous IA Strategy The Better Ways of Working approach has identified that change in the Council's approach to Customers Services is required. A project to address areas for development is underway.	-	-	✓
Strategic and Service Delivery, Planning and Monitoring	See Savings Plans above (Now included in financial management)	-	✓	-
Review of specific projects / service areas	Assurance required to support project delivery. Covered by audits in 2013/14, and in 2014/15 the Customer Services Review will include coverage of the management of the project.	✓	✓	✓
Partnership governance arrangements	Management and monitoring of established partnerships, and process of decision to enter into new partnership.	-	✓	-

Auditable Area	Outline Scope	2012/2013	2013/2014	2014/2015
Management of Housing Register	The Council needs to demonstrate the required five year supply of housing land and maintain direction over where new housing is built to best meet the Borough's housing and economic needs and sustain its high environmental quality.	-	✓	-
Risk Management	An annual review to ensure that risk management continues to operate effectively throughout the Council will include compliance and assurance stocktake reviews.	✓	✓	✓
Corporate Governance	An annual review of aspects of governance. In 2013/14 this will focus on Partnership Governance as detailed above.	✓	✓	
IT Reviews (including reviews of IT Strategy, IT Security, systems change controls, software licensing etc.)	Reviews of IT areas of risk and management concerns. In 2014/15 this will focus on Payment Card Industry Standards Compliance	✓	✓	✓
Revenues	Rolling coverage and External Audit reliance	✓	✓	✓
Benefits	Rolling coverage and External Audit reliance Focus on the implementation of the Universal Credit and the changes to Council Tax Benefit that will bring.	✓	✓	✓
Treasury Management	Rolling coverage and External Audit reliance	✓	-	✓
Capital Accounting and Fixed Assets	Rolling coverage and External Audit reliance	✓	-	✓
Main Accounting, General Ledger and Reconciliations	Rolling coverage and External Audit reliance	✓	✓	✓
Payroll	Rolling coverage and External Audit reliance	✓	✓	✓
Debtors	Rolling coverage and External Audit reliance	✓	-	✓
Creditors	Rolling coverage and External Audit reliance	✓	✓	✓
Individual Electoral Registration	New area.	-	-	✓
Value for Money Review	New area.	-	-	✓
Other Internal Audit Activity				
Contingency	To allow additional reviews to be undertaken in	✓	✓	✓

Auditable Area	Outline Scope	2012/2013	2013/2014	2014/2015
	agreement with based in changes in risk profile or assurance needs as they arise during the year.			
Follow up	To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.	✓	✓	✓
Management	This will include: <ul style="list-style-type: none"> • Annual planning • Preparation for, and attendance at Overview and Scrutiny Committee meetings • Regular liaison and progress updates • Liaison with external audit and other assurance providers • Preparation of the annual opinion 	✓	✓	✓