



REPORT OF:	HEAD OF FINANCE
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TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	17 June 2015

WARD (S) AFFECTED:	ALL
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SUBJECT:	INTERNAL AUDIT STRATEGY 2015/16 – 2017/18 AND INTERNAL AUDIT PLAN 2015/16
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RECOMMENDATION:

- (i) to endorse the Internal Audit Strategy and Internal Audit Plan as set out in Annex 1.

SUMMARY:

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

In reviewing the Strategy and the Plan the Committee is asked to consider a number of key questions (highlighted in paragraph 4) in relation to the nature and scope of the proposed audits.

STATUTORY POWERS

1. Under the *Local Government Act 1972* and the *Accounts and Audit Regulations 2011*, 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 make certain that public money is spent effectively and efficiently.

ISSUES

2. The Internal Audit function is a key element in the management and delivery of effective corporate governance.
3. Under the code of practice that governs how Local Authorities should undertake their Internal Audit function, it is recommended best practice that an Internal Audit Strategy and an Internal Audit Plan are established, which set out a programme of audits that will ensure that all areas of key risks are reviewed on a regular basis.
4. The Council's Constitution delegates consideration of this Strategy and Plan to the Overview and Scrutiny Committee.

5. The purpose of this report is therefore to seek the Committee's endorsement of an updated Internal Audit Strategy, and more specifically, the detailed Audit Plan for the 2015/16 contained within it.
6. As stated in the Strategy (section 4, page 7), the Committee is asked to consider the following questions:
 - Is the work within the Audit Plan (as set out in Appendix A) sufficient to monitor the organisation's risk profile effectively?
 - Does the strategy for internal audit (as set out in Appendix B) cover the organisation's key risks as they are recognised by the Committee?
 - Are the areas selected for coverage this coming year appropriate?
 - Is the Committee content that the standards within the charter in Appendix C are appropriate to monitor the performance of internal audit?

OPTIONS

7. The Committee has two options open to it:
 - Option 1: endorse the Internal Audit Strategy and Internal Audit Plan as set out.
 - Option 2: defer the approval and ask for further work to be carried out. This will cause delay and could impact on the ability of Baker Tilly to deliver the 2015/16 programme.

LEGAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

9. The cost of funding the Audit Plan is allowed for within the Council's base budget.
10. 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

11. There are no equality issues arising from this report.

CONSULTATION

12. As part of the consultation process the draft Strategy has been discussed with – and endorsed by - the Corporate Governance Group and the Management Team.

POLICY FRAMEWORK

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

Background Papers: none

Reigate and Banstead Borough Council

Internal audit strategy 2015/2016 - 2017/2018

For presentation to the Overview and Scrutiny
Committee meeting

18 June 2015

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1 Introduction

Our approach to developing your internal audit plan is based on analysing your corporate objectives, risk profile and assurance framework as well as other, factors affecting Reigate and Banstead Borough Council in the year ahead including changes within the sector.

1.1 Background

The authority recognises that it must manage its finances well. The authority considers that it receives a very low government grant which will reduce and possibly disappear by 2020. Therefore, its ability to provide great services for its residents and businesses will depend on income and Council Tax, which are often restricted. To balance the budget, the Authority plans to take a commercial approach to fees and charges wherever possible. It will also seek to find new income sources and investment income. The funding model will therefore change to reflect the new financial situation which will represent a paradigm shift in our funding.

1.2 Vision

The Council's vision is:

“Going forward our vision is for a leading Council recognised by our residents, peers and partners.

We will:

- Deliver quality services and support
- Provide value for money
- Make the borough a great place to live
- Be flexible and sustainable, responding to the needs and demands of our borough, residents and businesses
- Be an increasingly commercial organisation.”

1.3 Objectives

The 5 year plan outlines the priorities that the Council has set to deliver the vision.

There are 13 priorities, based around three themes:

- People: supporting residents to enjoy healthy and happy lifestyles
- Place: A great place to live and work
- Organisation: a great Council

The plan expands on each priority, setting out objectives and examples of the activities that will support it, together with the desired outcomes and the indicators that we will use to measure success.

2 Developing the internal audit strategy

We use your objectives as the starting point in the development of your internal audit plan.

2.1 Risk management processes

The Council has a risk register in place.

We have used various sources of information (see Figure A below) and have been informed of priorities for internal audit coverage by the Corporate Governance Group.

Based on our understanding of the organisation, and the information provided to us by the stakeholders above, we have developed an annual internal plan for the coming year, and a high level strategic plan (**see Appendix A and B for full details**).



Figure A: Sources considered when developing the Internal Audit Strategy.

2.2 How the plan links to your strategic objectives

Each of the reviews that we propose to undertake is detailed in the internal audit plan and strategy within Appendices A and B. In the table below we bring to your attention particular key audit areas and discuss the rationale for their inclusion or exclusion within the strategy.

Area	Reason for inclusion or exclusion in the audit plan/strategy	Link to strategic objective
Grant applications and funding	Not previously covered	Deliver quality services and support
CRM	Increasing reliance on technology for council functions	Be an increasingly commercial organisation

As well as assignments designed to provide assurance or advisory input around specific risks, the strategy also includes time for reviewing the implementation of actions and an audit management allocation. Full details of these can be found in Appendices A and B.

2.4 Working with other assurance providers

The Overview and Scrutiny Committee is reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not, seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers, such as external audit to ensure that duplication is minimised and a suitable breadth of assurance obtained.

3 Internal audit resources

Your internal audit service is provided by Baker Tilly Risk Advisory Services LLP. The team will be led by Partner, supported by Karen Williams as Director

3.1 Fees

Our anticipated fee to deliver the plan of has been communicated via separate correspondence and remains in line with our tender.

3.2 Conformance with internal auditing standards

Baker Tilly affirms that our internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS). Further details of our responsibilities are set out in our internal audit charter within Appendix C.

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our Risk Advisory service line commissioned an external independent review of our internal audit services in 2011 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 “the design and implementation of systems for the delivery of internal audit provides substantial assurance that the standards established by the IIA in the IPPF will be delivered in an adequate and effective manner”.

3.3 Conflicts of Interest

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 internal auditing standards.

4 Overview and Scrutiny committee requirements

In approving the internal audit strategy, the committee is asked to consider the following:

- Is the Committee satisfied that sufficient assurances are being received within our annual plan (as set out at Appendix A) to monitor the organisation's risk profile effectively?
- Does the strategy for internal audit (as set out at Appendix B) cover the organisation's key risks as they are recognised by the Committee?
- Are the areas selected for coverage this coming year appropriate?
- Is the Committee content that the standards within the charter in Appendix C are appropriate to monitor the performance of internal audit?

It may be necessary to update our plan in year, should your risk profile change and different risks emerge that could benefit from internal audit input. We will ensure that management and the Committee approve such any amendments to this plan.

Appendix A: Internal audit plan 2015/2016

Audit area	Scope for 2015/16	Audit days	Proposed timing
Risk based assurance			
Implementation of Universal Credit	Review of implementation of change in process.	8	Subject to DWP implementation
Agresso IT system change	A planned in year change to core finance functions will require assurance over the changes and the integrity of data.	12	Q2
Core assurance			
VFM Review: Procurement	Advisory review challenging the council's approach to procurement and how it is able to ensure that it is able to demonstrate value for money.	12	Q3
Fleet Management	This area has not been subject to audit for some time and will challenge the Council's management of its fleet, covering purchasing, maintenance and health and safety practices.	12	Q1
Governance (with Transparency Code)	Our governance audit will focus on the Council's obligations for openness and transparency.	8	Q4
Information governance	This audit will cover the processes adopted for the close management of data and information, particularly at a time when remote working is encouraged. The scope will be determined once the government Connect review has concluded.	10	Q3

Audit area	Scope for 2015/16	Audit days	Proposed timing
HR: Recruitment	The planned implementation of iTrent recruitment module will bring a change in practice over the recruitment processes and our work will ensure that there is a suitable control framework in place around the use of the module as well as self-service.	12	Q1
Risk management	We will continue our review of the Council's processes and will review the resilience of the risk management process in light of the departure of the Risk Manager in 2015.	8	Q4
Management of grant applications and payments for disabled grants	This audit will cover the control framework established for the management of grant applications received and payments awarded to ensure that such payments are in place with the applications as well as the requirements of the grant scheme. This will also cover contractual arrangements to ensure that value for money is being obtained where funds are awarded.	12	Q3
Revenues	Review of key controls	8	Q4
Benefits	Review of key controls	8	Q4
Main accounting and general ledger	Review of key controls	8	Q3
Payroll	Review of key controls	8	Q4
Creditors: Ordering and Payments	Review of key controls	8	Q3
Other internal audit input			

Audit area	Scope for 2015/16	Audit days	Proposed timing
Action tracking	To meet internal auditing standards and to provide management with on-going assurance regarding implementation of recommendations.	8	
Audit management	This will include: <ul style="list-style-type: none"> • Planning • Ongoing liaison and progress reporting • Preparation for and attendance at Audit Committee; and • Development and publication of the annual internal audit opinion 	20	
TOTAL		206	

Appendix B: Internal audit strategy

Proposed area for coverage	2015/16	2016/17	2017/18
Risk based assurance			
Implementation of universal credit	✓		
Localism Act			
Partnership governance and collaborative working		✓	
Asset management		✓	
Capital programmes and projects			
Core assurance			
Property management and maintenance (including security)	✓		
IT system reviews	✓	✓	✓
ITC Strategy			
Governance: openness and transparency	✓		✓
Information governance	✓		
Corporate planning and performance management		✓	
Car Parking			
CRM			

Proposed area for coverage	2015/16	2016/17	2017/18
Fleet Management	✓		
Homelessness			✓
Management of housing register			✓
HR management: recruitment	✓		
Strategic and service delivery, including financial management		✓	
Health and Safety compliance		✓	
Civil contingencies			✓
Business continuity and disaster recovery		✓	
Risk management	✓	✓	✓
Management of grant applications and payments (including disabled facilities grants)	✓		
Planning and S106/CIL compliance and income		✓	
Building Control			✓
Revenues	✓		✓
Benefits	✓		✓
Treasury Management		✓	
Capital accounting and fixed assets			✓

Proposed area for coverage		2015/16	2016/17	2017/18
Main accounting and general ledger		✓	✓	✓
Payroll		✓	✓	✓
Debtors			✓	
Creditors		✓		✓
Value for Money review (will be Procurement 15/16)		✓		✓
Cash handling				
Other Internal Audit input				
Action tracking	To meet internal auditing standards and to provide management with on-going assurance regarding implementation of recommendations.	✓	✓	✓
Contingency	To allow for additional audits to be undertaken at the request of the audit committee or management based on changes in assurance needs as they may arise during the year.	-	✓	✓
Audit management	This will include: <ul style="list-style-type: none"> • Planning • Ongoing liaison and progress reporting • Preparation for and attendance at Audit Committee; and • Development and publication of the annual internal audit opinion 	✓	✓	✓

Appendix C: Internal audit charter

1.0 Need for the charter

1.1 This charter establishes the purpose, authority and responsibilities for the internal audit service for Reigate and Banstead Borough Council. The establishment of a charter is a requirement of the Public Sector Internal Audit Standards (PSIAS) and approval of the charter is the responsibility of the audit committee.

1.2 The internal audit service is provided by Baker Tilly Risk Advisory Services LLP ("Baker Tilly"). Your key internal audit contacts are as follows:

	Partner	Director
Name	David Taylor	Karen Williams
Telephone	07899877692	07818002463
Email address	David.taylor@bakertilly.co.uk	Karen.williams@bakertilly.co.uk

1.3 We plan and perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the organisation has in place, focusing in particular on how these arrangements help you to achieve its objectives.

1.4 An overview of the individual internal audit assignment approach and our client care standards are included at Appendix D and E of the audit plan issued for 2015/16.

2.0 Role and definition of internal auditing

"Internal Audit 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 introducing a systematic, disciplined approach in order to evaluate and improve the effectiveness of risk management, control, and governance processes".

Definition of Internal Auditing, Institute of Internal Auditors and the Public Sector Internal Audit Standards

2.1 Internal audit is a key part of the assurance cycle for your organisation and, if used appropriately, can assist in informing and updating the risk profile of the organisation.

3.0 Independence and ethics

3.1 To provide for the independence of Internal Audit, its personnel report directly to the David Taylor (acting as your head of internal audit). The independence of Baker Tilly is assured by the internal audit service reporting to the Chief Executive, with further reporting lines to the Chief Financial Officer.

3.2 The head of internal audit has unrestricted access to the Chair of Audit Committee to whom all significant concerns relating to the adequacy and effectiveness of risk management activities, internal control and governance are reported.

3.3 Conflicts of interest may arise where Baker Tilly provides services other than internal audit to Reigate and Banstead Borough Council. Steps will be taken to avoid or manage transparently and openly such conflicts of interest so that there is no real or perceived threat or impairment to independence in providing the internal audit service. If a potential conflict arises through the provision of other services, disclosure will be reported to the audit committee. The nature of the disclosure will depend upon the potential impairment and it is important that our role does not appear to be compromised in reporting the matter to the audit committee. Equally we do not want the organisation to be deprived of wider Baker Tilly expertise and will therefore raise awareness without compromising our independence.

4.0 Responsibilities

4.1 In providing your outsourced internal audit service, Baker Tilly has a responsibility to:

- Develop a flexible and risk based internal audit strategy with more detailed annual audit plans which align to the corporate objectives. The plan will be submitted to the audit committee for review and approval each year before work commences on delivery of that plan.
- Implement the audit plan as approved, including any additional reviews requested by management and the audit committee.
- Ensure the internal audit team consists of professional internal audit staff with sufficient knowledge, skills, and experience.
- Establish a quality assurance and improvement program to ensure the quality and effective operation of internal audit activities.

- Perform advisory activities where appropriate, beyond internal audit's assurance services, to assist management in meeting its objectives.
- Bring a systematic disciplined approach to evaluate and report on the effectiveness of risk management, internal control and governance processes.
- Highlight control weaknesses and required associated improvements and agree corrective action with management based on an acceptable and practicable timeframe.
- Undertake action tracking reviews to ensure management has implemented agreed internal control improvements within specified and agreed timeframes.
- Provide a list of significant performance indicators and results to the audit committee to demonstrate the performance of the internal audit service.
- Liaise with the external auditor and other relevant assurance providers for the purpose of providing optimal assurance to the organisation.

5.0 Authority

5.1 The internal audit team is authorised to:

- Have unrestricted access to all functions, records, property and personnel which it considers necessary to fulfil its function.
- Have full and free access to the audit committee.
- Allocate resources, set timeframes, define review areas, develop scopes of work and apply techniques to accomplish the overall internal audit objectives.
- Obtain the required assistance from personnel within the organisation where audits will be performed, including other specialised services from within or outside the organisation.

5.2 The head of internal audit and internal audit staff are not authorised to:

- Perform any operational duties associated with the organisation.
- Initiate or approve accounting transactions on behalf of the organisation.
- Direct the activities of any employee not employed by Baker Tilly unless specifically seconded to internal audit.

6.0 Key Performance Indicators (KPIs)

6.1 In delivering our services we require full cooperation from key stakeholders and relevant business areas to ensure a smooth delivery of the plan. We proposed the following KPIs for monitoring the delivery of the internal audit service:

Delivery	Quality
Audits commenced in line with original timescales agreed in the internal audit plan.	Conformance with the Public Sector Internal Audit Standards.
Draft reports issued within 10 working days of debrief meeting.	Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit.
Final report issued within 3 days from receipt of management responses.	Response time for all general enquiries for assistance is completed within 2 working days.
	Response to emergencies such as concerns of potential fraud with 1 working day.

7.0 Reporting

7.1 An assignment report will be issued following each internal audit assignment. The report will be issued in draft for comment by management, and then issued as a final report to management, with the executive summary being provided to the Scrutiny Committee. The final report will contain an action plan agreed with management to address any weaknesses identified by internal audit.

7.2 As your internal audit provider, the assignment opinions that Baker Tilly provides the organisation during the year are part of the framework of assurances that assist the board in taking decisions and managing its risks.

7.3 As the provider of the internal audit service we are required to provide an annual opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the board is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The annual opinion will be provided to the organisation by Baker Tilly Risk Advisory Services LLP at the financial year end. The results of internal audit reviews, and the annual opinion, should be used by management and the Board to inform the organisation's annual governance statement.

8.0 Data Protection

- Internal audit files need to include sufficient, reliable, relevant and useful evidence in order to support our findings and conclusions. Personal data is not shared with unauthorised persons unless there is a valid and lawful requirement to do so. We are authorised as providers of internal audit services to our clients (through the firm's Terms of Business and our engagement letter) to have access to all necessary documentation from our clients needed to carry out our duties.
- Personal data is not shared outside of Baker Tilly. The only exception would be where there is information on an internal audit file that external auditors have access to as part of their review of internal audit work or where the firm has a legal or ethical obligation to do so (such as providing information to support a fraud investigation based on internal audit findings).
- Baker Tilly has a Data Protection Policy in place that requires compliance by all of our employees. Non-compliance will be treated as gross misconduct.

9.0 Fraud

9.1 The Scrutiny Committee recognises that management is responsible for controls to reasonably prevent and detect fraud. Furthermore, the audit committee recognises that internal audit is not responsible for identifying fraud; however internal audit will assess the risk of fraud and be aware of the risk of fraud when planning and undertaking any internal audit work.

10.0 Approval of the internal audit charter

10.1 By approving this document, the annual plan, the audit committee is also approving the internal audit charter.

Appendix D: Our approach to an internal audit assignment



Each audit will be planned individually to ensure that the scope addresses the risks facing your organisation, and is therefore a useful source of assurance, providing assurance on the controls that you rely on to manage your risks and deliver your objectives.

We will meet with appropriate staff to understand the area under review and will then send you an Assignment Planning Sheet for your comment and sign off, so that we can discuss and agree the scope of each review; this provides the Audit Sponsor with an opportunity to comment on the scope of each audit. We will agree the audit date at the start of the year and you will receive a planning sheet at least four weeks before the audit commences.

Once the scope has been agreed, our audit fieldwork is carefully planned to ensure that we thoroughly test the right controls. Should we identify any major issues during the review, we will bring these to the attention of management straight away. We will keep you informed through the audit, and our team will be happy to answer any questions you may have. We will provide a list of information we will need when we issue the planning sheet so that you can prepare for the audit.

Before the internal audit team leaves site, we will hold a debrief meeting to discuss our findings with you and agree actions to address any control weaknesses.

Therefore, there will be no surprises when you receive the draft internal audit report, and you have an opportunity to comment on the report before it is issued for wider circulation.

Each formal assurance report will contain a clear opinion, so you know instantly if your risk management of this area is effective

Every internal audit report contains an action plan which is completed by management. Once the action plan is completed the report is issued as a final report. This provides the Audit Committee with a clear view of management's response to each finding, and also enables action tracking. As part of the annual plan we will undertake follow up work to provide the Audit Committee with an overview of progress in implementing actions that management have agreed.

CLIENT CARE STANDARDS

Discussions with senior staff at the client take place to confirm the scope six weeks before the agreed audit start date

Key information such as: the draft assignment planning sheet are issued by Baker Tilly to the key auditee four weeks before the agreed start date

The lead auditor to contact the client to confirm logistical arrangements two weeks before the agreed start date.

Fieldwork takes place on agreed dates with key issues flagged up immediately.

A debrief meeting will be held with audit sponsor at the end of fieldwork or within a reasonable time frame.

Two weeks after a debrief meeting a draft report will be issued by Baker Tilly to the agreed distribution list.

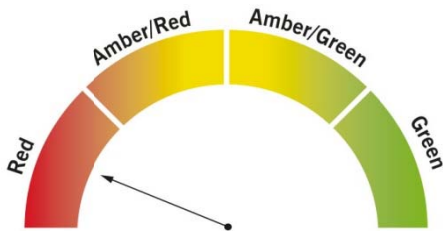
Management responses to the draft report should be submitted to Baker Tilly.

Within three days of receipt of client responses the final report will be issued by Baker Tilly to the assignment sponsor and any other agreed recipients of the report.

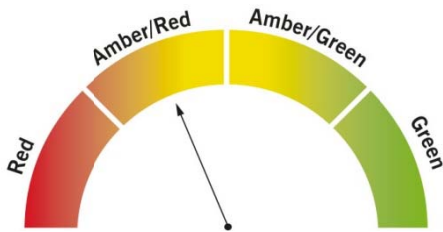
Appendix E: Overview of internal audit assignment opinions

For internal audits classed as “risk based assurance” reviews (compared with advisory input), we use four opinion levels as shown below. Each assignment report will explain the scope of the review, and therefore the context and scope of the opinion.

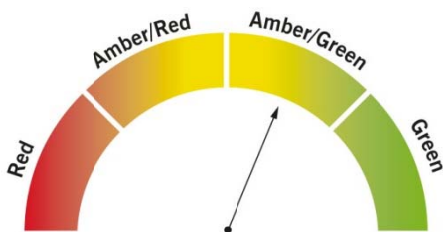
← Increasing level of assurance



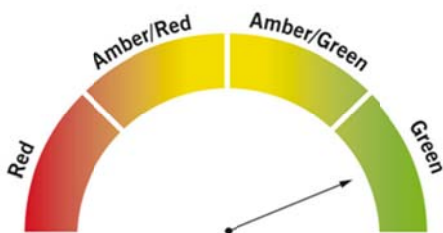
Taking account of the issues identified, the Board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Urgent action is needed to strengthen the control framework to manage the identified risk(s).



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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Tel: 07818 002463

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