



REPORT OF:	HEAD OF FINANCE
AUTHOR:	BILL PALLETT
TELEPHONE:	01737 276560
E-MAIL:	Bill.Pallett@reigate-banstead.gov.uk
TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	17 June 2015

WARD (S) AFFECTED:	ALL
---------------------------	-----

SUBJECT:	ANNUAL INTERNAL AUDIT REPORT 2014/15
RECOMMENDATION:	
<p>(i) that the Committee note the Annual Internal Audit Report attached at Annex 1;</p> <p>(ii) That the Committee make any observations and/or recommendations to the Leader of the Council and Chief Executive.</p>	
SUMMARY:	
<p>Under the Council's Constitution the Overview and Scrutiny Committee fulfils the role of the Audit Committee. As part of this role, and in accordance with the national Code of Practice governing Internal Audit in Local Government, the Committee is asked to receive the annual written report of the Chief Internal Auditor.</p>	

STATUTORY POWERS

- 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

- The Internal Audit function is a key element in the management and delivery of effective corporate governance.
- The Council's Constitution delegates receipt of the annual report of the Chief Internal Auditor to the Overview and Scrutiny Committee. The Council's Chief Internal Auditor is Baker Tilly, whose annual report for the 2014/15 audit year is attached at Annex 1.
- The purpose of this Report is to provide an opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes.
- With regards to the detailed information contained within the Appendix to the Report, the Committee has already scrutinised this during the year as part of the

quarterly performance reporting process. To support this process, copies of all of the internal audit reports referred to in the report have been made available in the eMembers' Room.

OPTIONS

6. The Committee has two options open to it:
- Option 1: Note the report and make any appropriate observations and comments to the Leader of the Council and Chief Executive.
 - Option 2: Note the report and make no observations.

LEGAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

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

EQUALITIES IMPLICATIONS

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

CONSULTATION

10. This Report has been considered by the Corporate Governance Group.

POLICY FRAMEWORK

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

Background Papers: none

Reigate and Banstead Borough Council

Annual Internal Audit Report - Year ended 31 March 2015

Presented at the Overview and Scrutiny
Committee meeting of: June 2015

Baker Tilly Risk Advisory Services LLP

Contents

1 Introduction.....	2
2 The Head of Internal Audit Opinion.....	3
3 Our performance.....	6
Appendix A: Internal Audit Opinion and Recommendations 2014/2015.....	8
For further information contact.....	10

As a practising member firm of the Institute of Chartered Accountants in England and Wales (ICAEW), we are subject to its ethical and other professional requirements which are detailed at <http://www.icaew.com/en/members/regulations-standards-and-guidance>.

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

This report is supplied on the understanding that it is solely for the use of the persons to whom it is addressed and for the purposes set out herein. Our work has been undertaken solely to prepare this report and state those matters that we have agreed to state to them. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from Baker Tilly Risk Advisory Services LLP for any purpose or in any context. Any party other than the Board which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, Baker Tilly Risk Advisory Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Baker Tilly Risk Advisory Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.

© 2015 Baker Tilly Risk Advisory Services LLP

1 Introduction

In accordance with Public Sector Internal Audit Standards, the Head of Internal Audit (HoIA) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes.

This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that internal audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led assurance framework. As such, the assurance framework is one component that the board takes into account in making its annual governance statement (AGS).

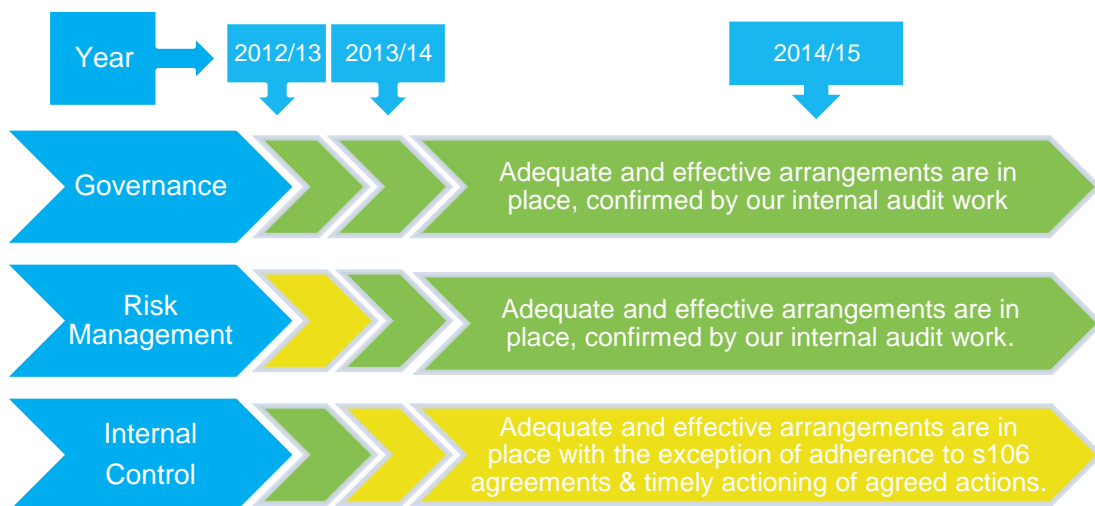
The AGS is an annual statement by the Section 151 Officer, on behalf of the board, setting out:

- How the individual responsibilities of the Section 151 Officer are discharged with regard to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- The purpose of the system of internal control as evidenced by a description of the risk management and review processes, including the assurance framework process; and
- The conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

2 The Head of Internal Audit Opinion

The purpose of our annual the Head of Internal Audit Opinion is to contribute to the assurances available to the Section 151 Officer and the Council through the Audit Committee. This opinion will in turn assist the Board in the preparation of its annual governance statement.

For the 12 months ended 31 March 2015, based on the work we have undertaken, our opinion below details the adequacy and effectiveness of your organisation’s risk management, internal control and governance arrangements. We also show below the direction of travel of our opinions.



Further detail supporting our opinion can be found over the page.

2.1 The basis of our opinion

Whilst not significant issues in themselves, we would expect the Council to consider in the formulation of the AGS, the internal control weaknesses identified along with the improvements undertaken in the year in relation to s106 agreements. We identified areas of weakness in the application of the controls to ensure that the risks are minimised.

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



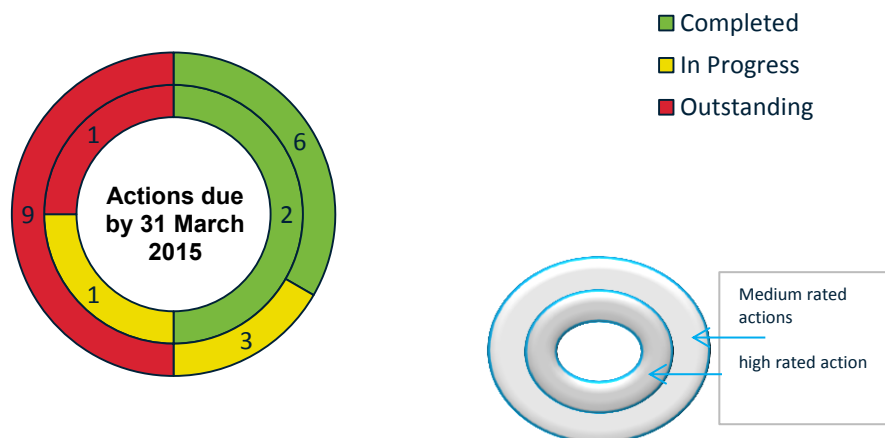
2.2 Acceptance of 2014/2015 Internal Audit recommendations

All of the recommendations made during the year in final reports, were accepted by management.

A number of reports remain in draft.

2.3 Implementation of internal audit recommendations

Our follow up of the recommendations from previous years assignments, showed that the organisation had made little progress in implementing all of the agreed actions, notably the degree of implementation of medium rated recommendations.



Of the 4 high rated recommendations made, we noted that 2 had been fully implemented. The high rated recommendation in progress is the management of income through bed and breakfast relating to homelessness where we found that the Council is changing the process but it has not yet been fully implemented.

The outstanding high rated recommendation relates to the need to ensure that there is routine monitoring of waste arrears.

The medium recommendations not yet implemented are across a range of different areas and contribute towards our view that "little" progress has been made.

2.4 Reliance placed upon work of other assurance providers

In forming our opinion we have not placed any direct reliance on other assurance providers.

3 Our performance

3.1 Wider value-adding delivery

As part of our client service commitment, during 2014/15 we:

- issued 11 news bulletins to our local authority clients;
- provided a seminar for the East Surrey Internal Audit consortium in October 2014 which focused on risks around:
 - Procurement
 - Contract management
 - Social Value
- provided benchmarking within our reports on the number and category of recommendations and assurance opinions across other organisations where appropriate;
- made suggestions throughout our audit reports based on our knowledge and experience in the local government sector to provide areas for consideration;
- used specialists to undertake a review of your policies and procedures from a fraud perspective;
- provided regular contact and ad-hoc telephone calls and responded to queries from senior staff throughout the year.

3.2 Conflicts of interest

We Baker Tilly have not undertaken any work or activity during 2014/15 that would lead us to declare any conflict of interests.

3.3 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).

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”.

3.4 Performance indicators

Our performance during 2014/2015 is summarised below across a range of performance indicators.

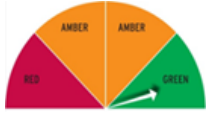
Delivery	Quality			Quality	Quality		
	Target	Actual	Notes (ref)		Target	Actual	Notes (ref)
Audits commenced in line with original timescales	Yes	100%		Conformance with PSIAS and IIA Standards	Yes	Yes	
Draft reports issued within 28 days of debrief meeting	100%	83%	1	The external auditor can place reliance on the work of internal audit.	Yes	Yes	
Final report issued within 7 days of management response	100%	100%		Response time for all general enquiries for assistance	2 working days	100%	
% of recommendations accepted				Response for emergencies and potential fraud	1 working day	N/A	
High	95%	100%					
Medium	100%	100%					
% of High & Medium recommendations followed up	100%	100%					

Notes

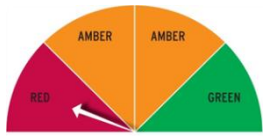
1 - Two reports were delayed for issue due to staff absences on our part.

Appendix A: Internal Audit Opinion and Recommendations 2014/2015

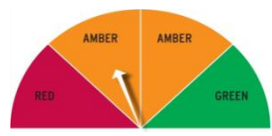
Assignment	Report Status	Opinion	Actions agreed		
			H	M	L
Compliance with Section 106 Requirements	Final		-	5	2
Corporate Governance	Final		-	-	1
Creditors	Draft		-	-	-
Customer Services Better Ways of Working (Wave 1)	Final		-	-	-
Debtors	Draft		-	-	-
Main Accounting	Final		-	-	1
Payroll	Draft		-	-	-
Planning and Building Control	Final		-	1	6
Revenues	Final		-	-	2

Assignment	Report Status	Opinion	Actions agreed		
			H	M	L
Treasury Management	Draft				

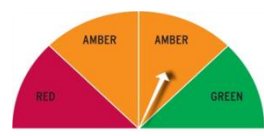
We use the following levels of opinion classification within our internal audit reports



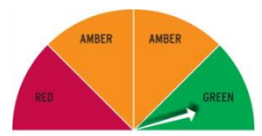
Taking account of the issues identified, the Board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.
Action needs to be taken to ensure this risk is managed.



Taking account of the issues identified, whilst the Board can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.



Taking account of the issues identified, the Board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.
However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.



Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

For further information contact

Mark Jones

Mark.Jones@bakertilly.co.uk

Tel: 07768 952387

Karen Williams

Karen.Williams@bakertilly.co.uk

Tel: 07818 002463