



<b>REPORT OF:</b>	HEAD OF FINANCE
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<b>TO:</b>	OVERVIEW AND SCRUTINY COMMITTEE
<b>DATE:</b>	13 APRIL 2016

<b>WARD (S) AFFECTED:</b>	ALL
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<b>SUBJECT:</b>	<b>INTERNAL AUDIT STRATEGY 2015 - 2018 AND INTERNAL AUDIT PLAN 2016/17</b>
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<b>RECOMMENDATION:</b>
(i) to endorse the Internal Audit Strategy and Internal Audit Plan as set out in Annex 1.

<b>SUMMARY:</b>
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 6) 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 2016/17 contained within it.
6. As stated in the Strategy (section 4), 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 RSM to deliver the 2016/17 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.

### **COMMUNICATION IMPLICATIONS**

12. There are no communications issues arising from this report.

### **RISK MANAGEMENT CONSIDERATIONS**

13. Effective Internal Audit is an important part of risk management.

### **CONSULTATION**

14. 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**

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

**Background Papers:** none





REIGATE AND BANSTEAD  
BOROUGH COUNCIL

Updated Internal Audit Strategy 2016/17





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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 disappear by 2017. 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 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**).

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
Partnership governance and collaborative working	Identified by the council as an area of risk, and a common theme in our 2016/17 internal audit plans, this review will challenge the governance processes established to enter into such arrangements.
Cyber Security	Again a common theme due to increased risks to organisations. We will undertake a gap analysis of the council's arrangements for ensuring appropriate security and reducing exposure to risk.
Income generating activities	As the Council increasingly moves away from reliance on grant income our work will challenge those areas where income needs to be maximised.
Data Protection	Significant change is anticipated in year as a result of changes in European legislation.

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



## **2.2 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 YOUR INTERNAL AUDIT SERVICE

Your internal audit service is provided by RSM Risk Assurance Services LLP. The team will be led by Karen Williams, supported by Chris Benn as your manager.

### 3.1 Conformance with internal auditing standards

RSM 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 Assurance 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”.

### 3.2 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 COMMITTEE REQUIREMENTS

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

- Is the Overview and Scrutiny 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 Overview and Scrutiny Committee?
- Are the areas selected for coverage this coming year appropriate?
- Is the Overview and Scrutiny Committee content that the standards within the charter in Appendix D 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 Overview and Scrutiny Committee approve such any amendments to this plan.

## APPENDIX A: INTERNAL AUDIT PLAN 2016/17

Audit	Scope for Year	Audit days	Proposed timing
<b>Risk Based Assurance</b>			
Partnership governance and collaborative working	Due to funding reductions local authorities are looking to find ways of working together to reduce costs through partnership arrangements. Our work will review the governance processes of such existing arrangements to inform a sound approach for future partnership agreements.	10	Q3
Asset management	Process for the review of the existing asset base and how it is being managed.	8	Q3
<b>Core Assurance</b>			
Cyber Security	We will undertake a gap analysis of the 10 areas of IT security as detailed in CESG's (the Information Security arm of GCHQ) 10 steps to cyber security framework. These will be provided to the Trust and a request will be made for a self-assessment to be undertaken. With the support of our specialist IT Audit team, we will review the self-assessment and the evidence in place to support the self-assessment evaluation. We will through discussion with the Council identify those areas of IT controls which require further detailed assessment (e.g. through vulnerability testing) and undertake tailored testing as required.	15	Q2
Corporate planning and performance management	Adequacy of process to develop and approve the corporate plan, and then how that plan is monitored and delivered through performance management review and checking the quality of the data used for the performance monitoring.	10	Q2
Car parking	Completeness of income due for on street and off street parking, use of machines, mobile payments and enforcement of penalty charge notices.	8	Q1
Health and safety compliance	To review the processes followed by management to ensure that there is compliance with legislation for staff and service users across the operations of the Council. We will consider consistency of application across the Council to ensure that practice is embedded and areas of responsibility are clear.	12	Q1

Audit	Scope for Year	Audit days	Proposed timing
Business continuity and disaster recovery	Assurance over back office arrangements for ensuring continuity of the councils functions in the event of a problem.	10	Q3
Risk management	Compliance with controls	8	Q3
Planning - compliance and income	Government can remove planning powers from Councils who perform poorly against measure relating to speed of decision making, appeals and (in future) progress on Local Development Orders. This review will focus on compliance with standards/legislation. We will also undertake testing to provide assurance on the completeness of the collection of income.	10	Q1
S106/CIL compliance and income	CIL is newly implemented and it is timely to undertake a management review to ensure the adequacy of the control framework established.	8	Q1
Treasury Management	Compliance with controls	7	Q3
Creditors	Compliance with controls	7	Q3
Main accounting and general ledger	Compliance with controls	7	Q3
Payroll	Compliance with controls	8	Q3
Debtors – income generating activities:			
- Licencing Hackney carriages	Completeness in collection and recording of income and specific requirements in these areas.	7	Q1
- Pest control	Specifically focusing on “book and pay” processes	7	Q1
Data Protection	Change with EU legislation will require change in practice/compliance in UK.	10	Q4
<b>Other internal audit activity</b>			
Contingency	To allow additional reviews to be undertaken in agreement with the Overview and Scrutiny Committee or management based in changes in risk profile or assurance needs as they arise during the year.	30	As required

Audit	Scope for Year	Audit days	Proposed timing
Follow up	To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.	10	Month Year
Management	This will include: <ul style="list-style-type: none"> <li>• Annual planning</li> <li>• Preparation for, and attendance at, Overview and Scrutiny Committee</li> <li>• Regular liaison and progress updates</li> <li>• Liaison with external audit and other assurance providers</li> <li>• Preparation of the annual opinion</li> </ul>	14	Throughout the year

# APPENDIX B: UPDATED INTERNAL AUDIT STRATEGY 2015/16 – 2017/18

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

Proposed area for coverage	2015/16	2016/17	2017/18	
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			✓	
Main accounting and general ledger	✓	✓	✓	
Payroll	✓	✓	✓	
Debtors		✓		
Creditors	✓		✓	
Value for Money review (will be Procurement 15/16)	✓		✓	
Income generating activities		✓		
<b>Other Internal Audit Activity</b>				
Contingency	To allow additional reviews to be undertaken in agreement with the Overview and Scrutiny Committee or management 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.	✓	✓	✓



Proposed area for coverage	2015/16	2016/17	2017/18
Management <ul style="list-style-type: none"> <li>• This will include:</li> <li>• Annual planning</li> <li>• Preparation for, and attendance at, Overview and Scrutiny Committee</li> <li>• Administration of our actions tracking database – 4Action</li> <li>• Regular liaison and progress updates</li> <li>• Liaison with external audit and other assurance providers</li> <li>• Preparation of the annual opinion</li> </ul>	✓	✓	✓

# APPENDIX C: INTERNAL AUDIT CHARTER

## Need for the charter

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 Overview and Scrutiny Committee.

The internal audit service is provided by RSM Risk Assurance Services LLP (“RSM”). Your key internal audit contacts are as follows:

	Director	Manager
Name	Karen Williams	Chris Benn
Telephone	07818002463	
Email address	karen.williams@rsmuk.com	Chris.benn@rsmuk.com

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.

An overview of our client care standards are included at Appendix E of the internal audit strategy plan for 2016/17.

## 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

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.

## Independence and ethics

To provide for the independence of Internal Audit, its personnel report directly to Karen Williams (acting as your head of internal audit). The independence of RSM is assured by the internal audit service reporting to the Chief Executive, with further reporting lines to the Head of Finance.

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

Conflicts of interest may arise where RSM 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 Overview and Scrutiny 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 Overview and Scrutiny Committee. Equally we do not want the organisation to be deprived of wider RSM expertise and will therefore raise awareness without compromising our independence.

## Responsibilities

In providing your outsourced internal audit service, RSM has a responsibility to:

- Develop a flexible and risk based internal audit strategy with more detailed annual audit plans. The plan will be submitted to the Overview and Scrutiny Committee for review and approval each year before work commences on delivery of that plan.
- Implement the audit plan as approved, including any additional tasks requested by management and the Overview and Scrutiny Committee.
- Ensure the internal audit team consists of professional 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. Examples may include facilitation, process design and training.
- 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 together with corrective action recommended to management based on an acceptable and practicable timeframe.
- Undertake follow up reviews to ensure management has implemented agreed internal control improvements within specified and agreed timeframes.
- Provide a list of significant measurement goals and results to the Overview and Scrutiny Committee to demonstrate the performance of the internal audit service.
- Liaise with the external auditor for the purpose of providing optimal audit coverage to the organisation.

## Authority

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 Overview and Scrutiny 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.

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 RSM unless specifically seconded to internal audit.

## Key performance indicators (KPIs)

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
Draft reports issued within 10 working days of debrief meeting.	Conformance with the Public Sector Internal Audit Standards.
Final report issued within 3 days from receipt of management responses.	Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit.
Completion of internal audit plan by the end of the financial year.	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.

## Reporting

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 Overview and Scrutiny Committee. The final report will contain an action plan agreed with management to address any weaknesses identified by internal audit.

The internal audit service will issue progress reports to management summarising outcomes of audit activities, including follow up reviews.

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

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 RSM Risk Assurance 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.

## **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 RSM. 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).

RSM has a Data Protection Policy in place that requires compliance by all of our employees. Non-compliance will be treated as gross misconduct.

## **Fraud**

The Overview and Scrutiny Committee recognises that management is responsible for controls to reasonably prevent and detect fraud. Furthermore, the Overview and Scrutiny 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.

## **Approval of the internal audit charter**

By approving this document, the internal audit strategy, the Overview and Scrutiny Committee is also approving the internal audit charter.

## APPENDIX D: OUR 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 RSM 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 RSM to the agreed distribution list.
- Management responses to the draft report should be submitted to RSM.
- Within three days of receipt of client responses the final report will be issued by RSM to the assignment sponsor and any other agreed recipients of the report.

# FOR FURTHER INFORMATION CONTACT

Karen Williams

[karen.williams@rsmuk.com](mailto:karen.williams@rsmuk.com)

07818002463

**rsmuk.com**

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