



REPORT OF:	HEAD OF FINANCE
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TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	26 April 2017

WARD (S) AFFECTED:	ALL
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SUBJECT:	INTERNAL AUDIT STRATEGY 2015 - 2018 AND INTERNAL AUDIT PLAN 2017/18
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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 6) in relation to the nature and scope of the proposed audits.
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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 2017/18 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 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.

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

Internal Audit Plan 2017-2018



This report is solely for the use of the persons to whom it is addressed.
To the fullest extent permitted by law, RSM Risk Assurance Services LLP
will accept no responsibility or liability in respect of this report to any other party.

CONTENTS

1 Introduction.....	2
2 Developing the internal audit strategy.....	3
3 Your Internal Audit service	6
4 Overview and Scrutiny Committee requirements.....	7
Appendix A: Internal audit plan 2017/18	8
Appendix B: Updated internal audit strategy 2015/16 – 2017/18.....	11
Appendix C: Internal audit charter.....	14
Appendix D: Our client care standards	17
For further information contact	18

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.



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

We have previously evaluated your risk management processes and consider that we can place reliance on your risk registers to inform the internal audit plan for 2017/18.

Our consideration of the coverage of the plan is information by various sources of information as detailed in Figure A below. Using this, we have discussed priorities for internal audit coverage with Bill Pallett and based on our understanding of the organisation, the information provided to us, and the regulatory requirements, 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**). This draft plan will be considered by the Corporate Governance Group.

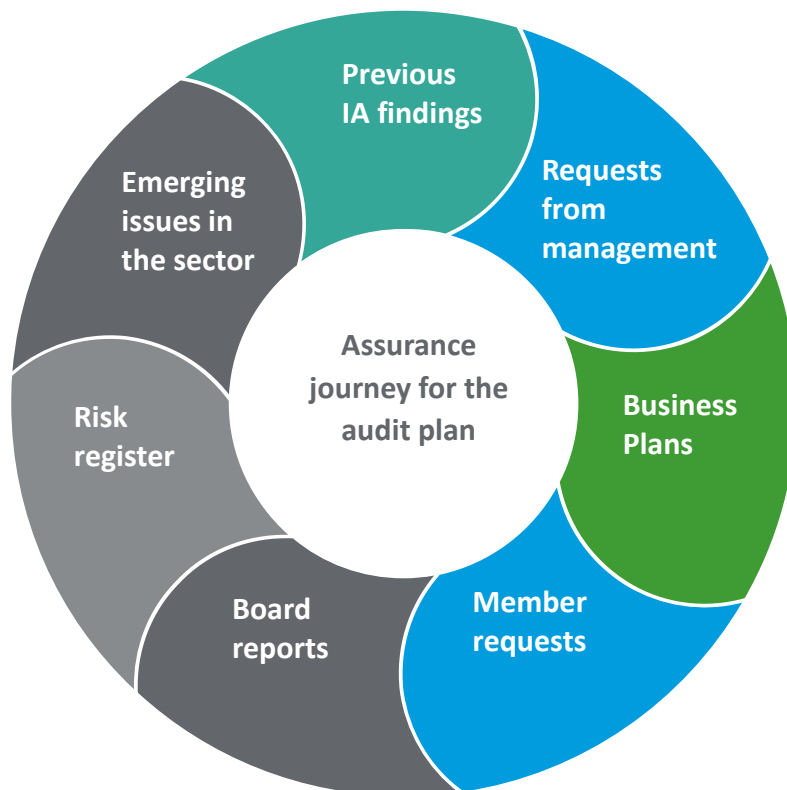


Figure A: Sources considered when developing the internal audit strategy

Figure B details those strategic risks and objectives in which may warrant internal audit coverage, reflecting both the inherent and residual risk. This review of your risks allows us to ensure that the proposed plan will meet the organisation's assurance needs for the forthcoming and future years.

2.2 How the plan links to your strategic risks

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.

Strategic risk	Reason for inclusion or exclusion in the audit plan/strategy
Devolution/changing governance environment (SR1)	Exclude The Council has sought representations opportunities but there is no need for assurance at this stage.
Financial sustainability and commercial service development (SR2)	Include Assurance is sought that this continues to be suitably managed.
Housing and welfare – homelessness support (SR3)	Include Management of budget, the Council's obligations, as well as ensuring that options used are appropriate.
Gatwick Airport (SR4)	Exclude No assurance needed. Decision now made to extend Heathrow.
Development Management Plan (SR5)	Include Compliance with government requirements for the completion of the Local Plan.
Property development (SR6)	Include Considerable strategic investment into property.
IT system reviews (SR7)	Include Scope to be determined given risk remains.
Leave result of referendum (SR8)	Exclude No coverage given uncertainty of impact. Consideration of financial implications against medium term finance plan. Will be covered as part of financial sustainability per SR2 above.

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.

2.3 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 Days

In line with our contract extension agreement, the total days to deliver this plan are 184.

3.2 Conformance with internal auditing standards

RSM 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 assurance service line commissioned an external independent review of our internal audit services in 2016 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 “there is a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to Overview and Scrutiny Committee and the supporting working papers.” RSM was found to have an excellent level of conformance with the IIA’s professional standards.

The risk assurance service line has in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit services. Resulting from the programme, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

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 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 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 Overview and Scrutiny Committee approve such any amendments to this plan.

APPENDIX A: INTERNAL AUDIT PLAN 2017/18

Audit	Objective of the review	Proposed timing
Risk Based Assurance		
<p>Financial sustainability and commercial service development (SR2)</p> <p>Property development (SR6)</p>	<p>A number of projects have been established by the Council which include:</p> <ul style="list-style-type: none"> • Strategic property development • Trade waste expansion • Health and integrated care <p>An Asset Management Plan has been established for a programme of investment, development and acquisition over the next 10 years is in place. Will require funding of a property company to which assets will be transferred.</p> <p>Our internal work will review the governance aspects to ensure that transparency / effective reporting lines / conflicts of interests are addressed.</p> <p>This will include the Horley Business Partnership.</p>	<p>July 2017</p>
<p>Housing and welfare – homelessness support (SR3) and (OR2)</p>	<p>Budget in this area has been increased to support the cost of this service and provide support for residents. Working in partnership with housing associations and purchase of property to provide temporary accommodation.</p> <p>This audit will challenge the operational management of this budget to ensure that the funds are used for the purposes intended and the outcomes required are achieved.</p>	<p>May 2017</p>
<p>IT system reviews (SR7)</p>	<p>Maintaining IT Security</p>	<p>September 2017</p>
<p>Planning decisions (OR1)</p>	<p>Planning decisions need to be robust and sustainable and based on sound planning considerations and judgements, free from non-planning related matters. Our work will challenge this process to ensure that staff and Members are appropriately trained and brief in respect of the decision among process.</p> <p>With the plans to purchase properties for development within the borough it is important to ensure that the Council can demonstrate transparency in the planning decisions.</p>	<p>June 2017</p>
Core Assurance		
<p>Governance</p>	<p>Review of an aspect of the governance arrangements of the Council.</p>	<p>January 2018</p>

Audit	Objective of the review	Proposed timing
Risk management	Review of an aspect of the risk management arrangements of the Council.	January 2018
Car Park reporting	An examination of the Car Parking Management Accountant report produced for Surrey County Council. Assurance that accounting report is based on a controlled system with effective audit trail accurately reported.	June 2017
Service and financial budget setting process	Management request of a detailed review of the operation of the setting of budgets and the ongoing monitoring of income and expenditure. This audit will challenge the processes used for the budget setting, against required and best practice, and how well those are then monitored thereafter to ensure that the financial plan of the Council are achieved.	June 2017
Management of housing register	<p>Compliance with current requirements for the management of the register.</p> <p>To determine whether improvements or changes could be made given the pressure on homeless services.</p>	June 2017
Civil contingencies	Compliance with requirements place on the Council for meeting the Civil Contingencies Act.	July 2017
Building Control	<p>Review of the joint venture arrangement with Mole Valley District Council and Tandridge District Council to ensure that the service operates as planned and in line with governance intentions.</p> <p>This review will be resource jointly from each of the three internal audit plans.</p>	November 2017
Controls Compliance		
Revenues	Review of the existing control framework to provide assurance that it continues to operate as planned and is complied with in practice.	October 2017
Benefits	Review of the existing control framework to provide assurance that it continues to operate as planned and is complied with in practice.	October 2017
Capital accounting and fixed assets	Review of the existing control framework to provide assurance that it continues to operate as planned and is complied with in practice.	October 2017

Audit	Objective of the review	Proposed timing
Main accounting and general ledger	Review of the existing control framework to provide assurance that it continues to operate as planned and is complied with in practice.	December 2017
Payroll	Review of the existing control framework to provide assurance that it continues to operate as planned and is complied with in practice.	December 2017
Creditors	Review of the existing control framework to provide assurance that it continues to operate as planned and is complied with in practice.	December 2017
Specialist input		
Digitalisation	With the advent of the digitalisation agenda we will consider how working methods have developed and how the Council has and could further improve these services to identify savings.	September 2017
Other internal audit activity		
Follow up	To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.	Throughout the year
Management	This will include: <ul style="list-style-type: none"> • Annual planning • Preparation for, and attendance at, Overview and Scrutiny Committee • Regular liaison and progress updates • Liaison with external audit and other assurance providers • Preparation of the annual opinion 	Throughout the year

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

Proposed area for coverage	Internal audit coverage	2015/16	2016/17	2017/18
Risk based assurance				
Financial sustainability and commercial service development (SR2)	A number of projects have been established by the Council which include: <ul style="list-style-type: none"> • Strategic property development • Trade waste expansion • Health and integrated care 			✓
Housing and welfare – homelessness support (SR3)	Budget in this area has been increased to support the cost of this service and provide support for residents. Working in partnership with housing associations and purchase of property to provide temporary accommodation			✓
Development Management Plan (SR5)	Delivery of the new local plan to prescribed timescales and content. For coverage in 2018/19.			
Property development (SR6)	An Asset Management Plan for a programme of investment, development and acquisition over the next 10 years is in place. Will require funding of a property company to which assets will be transferred. (Combined with commercial service development in the annual plan)			✓
IT system reviews (SR7)	Maintaining IT Security	✓	✓	✓
Data Protection (OR4)	Awareness of the requirements of the Act and assurance over compliance.		✓	
Procurement and Contracts (OR12)	Compliance with Government requirements in respect of procurement contracts and transparency in decisions.	✓		
Partnership governance and collaborative working	Previous risk		✓	
Asset management	Previous risk		✓	
Capital programmes and projects	Previous risk – superseded by property purchase risk above.			
Core Assurance				
Implementation of universal credit		✓		
Service and financial budget setting.				✓
Cap Park Reporting				✓

Proposed area for coverage	Internal audit coverage	2015/16	2016/17	2017/18
Property management and maintenance (including security)		✓		
Governance: openness and transparency		✓		✓
Information governance		✓		
Corporate planning and performance management			✓	
Car Parking			✓	
Fleet Management		✓		
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				✓
Value for Money review		✓		
Controls Compliance				
Revenues		✓		✓
Benefits		✓		✓
Treasury Management			✓	
Capital accounting and fixed assets				✓
Main accounting and general ledger		✓	✓	✓

Proposed area for coverage	Internal audit coverage	2015/16	2016/17	2017/18
Payroll		✓	✓	✓
Debtors			✓	
Creditors		✓		✓
Specialist reviews				
Digitalisation	With the advent of the digitalisation agenda we will consider how working methods have developed and how the council has and could further improve these services to identify savings.			✓
Other Internal Audit Activity				
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: Annual planning Preparation for, and attendance at, Overview and Scrutiny Committee Administration of our actions tracking database – 4Action Regular liaison and progress updates Liaison with external audit and other assurance providers Preparation of the annual opinion	✓	✓	✓

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").

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 is included at Appendix D.

The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Core Principles for the Professional Practice of Internal Auditing
- Definition of internal auditing
- Code of Ethics; and
- The Standards

Mission of internal audit

As set out in the PSIAS, the mission articulates what internal audit aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the mission.

"To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight".

Independence and ethics

To provide for the independence of internal audit, its personnel report directly to the 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 the 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 internal 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.
- 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.
- Report regularly to the Overview and Scrutiny Committee to demonstrate the performance of the internal audit service.

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.

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, and made available 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.

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.

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 be aware of the risk of fraud when planning and undertaking any assignments.

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

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