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| REPORT OF: | HEAD OF POLICY & PERFORMANCE |
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| TO: | OVERVIEW AND SCRUTINY COMMITTEE |
| DATE: | 13 JUNE 2017 |

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| WARD (S) AFFECTED: | ALL |
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| | |
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| SUBJECT: | ANNUAL INTERNAL AUDIT REPORT 2016-17 |
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RECOMMENDATIONS:

- (i) that the Committee note the Annual Internal Audit Report attached at Annex 1;
- (ii) That the Committee make any observations and/or recommendations to the Leader of the Council and Chief Executive.

SUMMARY:

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.

STATUTORY POWERS

1. Under the *Local Government Act 1972* and the *Accounts and Audit Regulations 2015*, 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

Sub Heading

2. The Internal Audit function is a key element in the management and delivery of effective corporate governance.
3. 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 RSM, whose annual report for the 2016/17 audit year is attached at Annex 1.

4. 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.
5. 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.
6. The Report (Section 2.2) provides details of the excellent progress made by the council in implementing previous year recommendations.

OPTIONS

7. 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

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

FINANCIAL IMPLICATIONS

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

EQUALITIES IMPLICATIONS

10. There are no equality issues arising from this report

OTHER IMPLICATIONS

- 11.

CONSULTATION

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

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 Annual Report 2016/17

May 2017

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.



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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. Management actions 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 solely for the use of the persons to whom it is addressed and for the purposes set out herein. 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 RSM Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. 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 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.

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

1 THE HEAD OF INTERNAL AUDIT OPINION

In accordance with Public Sector Internal Audit Standards, the head of internal audit 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. The opinion should contribute to the organisation's annual governance statement.

1.1 The opinion

For the 12 months ended 31 March 2017, the head of internal audit opinion for Reigate and Banstead Borough Council is as follows:

Head of internal audit opinion 2016/2017

The organisation has an adequate and effective framework for risk management, governance and internal control.

However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective.

Please see appendix A for the full range of annual opinions available to us in preparing this report and opinion.

1.2 Scope of our work

The formation of our opinion is achieved through a risk-based plan of work, agreed with management and approved by the Overview and Scrutiny 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).

1.3 Factors and findings which have informed our opinion

We have completed 16 audits in the year, and the opinions can be summarised as follows:

- 12 - substantial assurance
- 3 - reasonable assurance
- 1 – partial assurance

The partial assurance opinion was issued for the driver and vehicle licensing report. We found that there were five areas of medium risk which required management attention.

In addition our Cyber security review additionally highlighted a number of actions intended to increase digital security and resilience.

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

1.4 Topics judged relevant for consideration as part of the annual governance statement

There are no areas that we are aware of through our work or from wider sector knowledge that have impacted your AGS.

2 THE BASIS OF OUR INTERNAL AUDIT OPINION

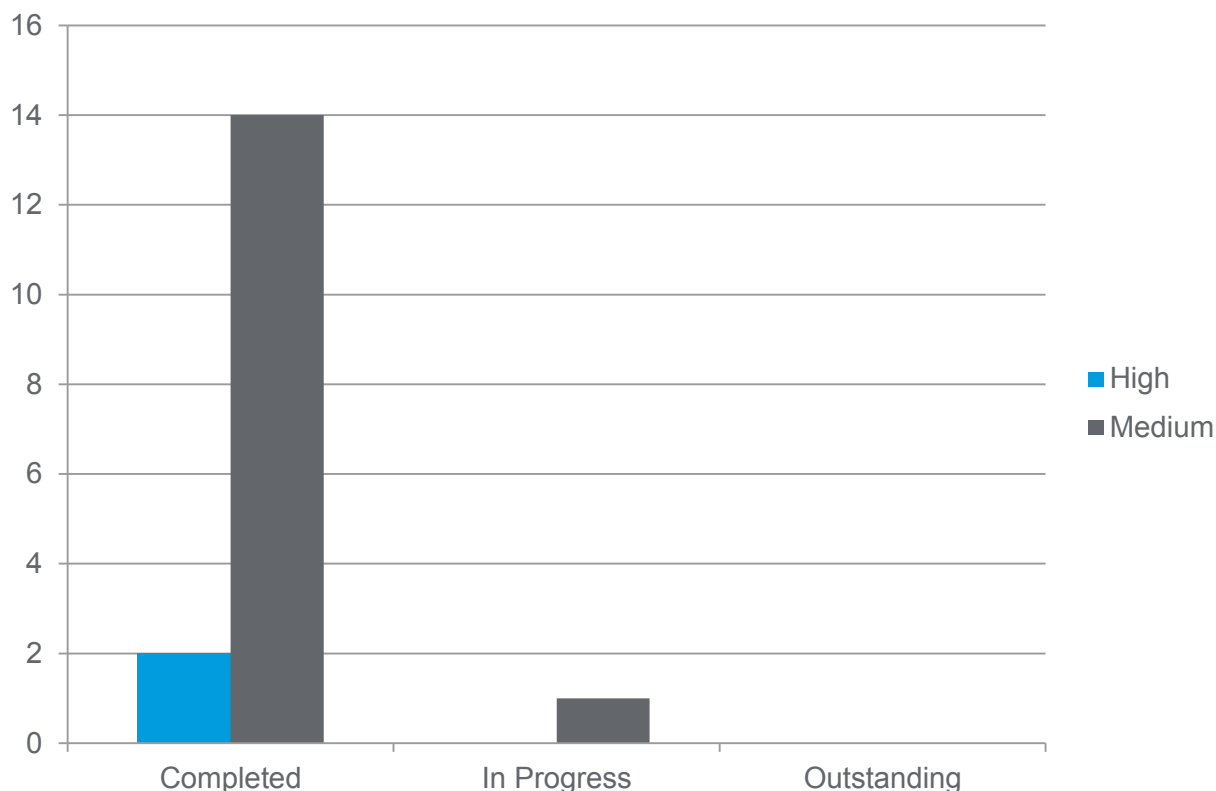
As well as those headlines discussed at paragraph 1.3, the following areas have helped to inform our opinion. A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

2.1 Acceptance of internal audit management actions

Management have agreed actions to address all of the findings reported by the internal audit service during 2016/2017.

2.2 Implementation of internal audit management actions

Our follow up of the actions agreed to address previous years' internal audit findings shows that the organisation had made good progress in implementing the agreed actions.



2.3 Working with 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

In the last year we have:

- issued 8 local authority news bulletins;
- provided benchmarking within our reports on the number and category of recommendations and assurance opinions across other organisations where appropriate;
- highlighted actions for management throughout our audit reports based on our knowledge and experience in the local government sector to provide areas for consideration;
- provided regular contact and ad-hoc telephone calls and responded to queries from senior staff throughout the year.

3.2 Conflicts of interest

RSM has not undertaken any work or activity during 2016/2017 that would lead us to declare any conflict of interest.

3.3 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 audit 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.

3.4 Feedback

We did not receive responses to post assignment surveys during the year.

The surveys are issued with each final report.

3.5 Performance indicators

A number of performance indicators were agreed with Overview and Scrutiny as part of the audit plan. Our performance against those indicators is as follows:

| Delivery | | | | Quality | | | |
|--|--------|--------|-------------|---|--------|--------|-------------|
| | Target | Actual | Notes (ref) | | Target | Actual | Notes (ref) |
| Audits commenced in line with original timescales | Yes | 100% | 1 | Conformance with PSIAS | Yes | Yes | |
| Draft reports issued within 10 days of debrief meeting | 100% | 35% | 2 | Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit. | Yes | Yes | |
| Draft reports issued within 20 days of debrief meeting | 100% | 100% | | Respond to general enquiries for assistance within two working days | 100% | 100% | |
| Final report issued within 3 days of management response | 100% | 100% | | Respond to emergencies or notifications of potential fraud within one working day | 100% | None | |
| % of High & Medium actions followed up | 100% | 100% | 3 | | | | |

Notes

1 – Any changes were at the request of Council management

2 – 10 working days is the RSM target, the contractual target is 20 working days.

3 – Results of follow up reported quarterly to management

APPENDIX A: ANNUAL OPINIONS

The following shows the full range of opinions available to us within our internal audit methodology to provide you with context regarding your annual internal audit opinion.

Annual opinions

The organisation has an adequate and effective framework for risk management, governance and internal control.

The organisation has an adequate and effective framework for risk management, governance and internal control.
However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective.

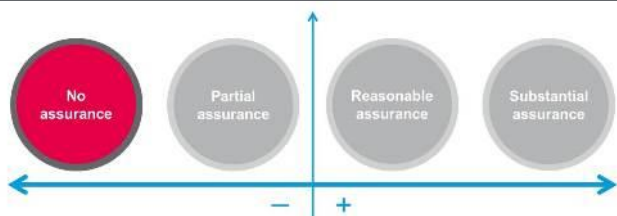
There are weaknesses in the framework of governance, risk management and control such that it could be, or could become, inadequate and ineffective.

The organisation does not have an adequate framework of risk management, governance or internal control.

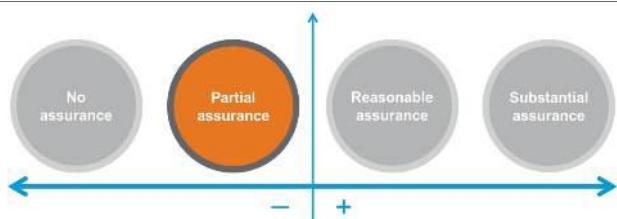
APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED 2016/2017

| Assignment | Assurance level | Actions agreed | | |
|------------------------------------|-----------------|----------------|---|----|
| | | H | M | L |
| Agresso IT system change (1.16/17) | Substantial | - | - | 2 |
| Car Parking (2.16/17) | Substantial | - | 1 | 1 |
| Debtors - Licensing (3.16/17) | Partial | | 5 | 4- |
| Debtors – Pest control (4.16/17) | Substantial | - | - | 1 |
| S106 CIL (5.16/17) | Substantial | - | - | 2 |
| Planning (6.16/17) | Substantial | - | 2 | 2 |
| Cyber Security (7.16/17) | Reasonable | 1 | 6 | 4 |
| Treasury Management (8.16/17) | Substantial | - | - | - |
| Performance Management (9.16/17) | Substantial | - | - | - |
| Creditors (10.16/17) | Substantial | - | - | 1 |
| Business Continuity (11.16/17) | Substantial | - | - | 6 |
| Asset Management (12.16/17) | Substantial | - | - | - |
| Main Accounting System (13.16/17) | Substantial | - | - | - |
| Risk Management (14.16/17) | Reasonable | - | - | 1 |
| Health & Safety (15.16/17) | Substantial | - | - | 3 |
| Payroll DRAFT(16.16/17) | Reasonable | - | 1 | 1 |

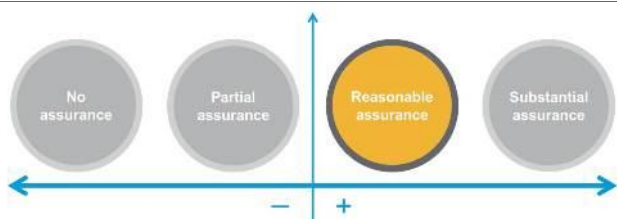
We use the following levels of opinion classification within our internal audit reports. Reflecting the level of assurance the board can take:



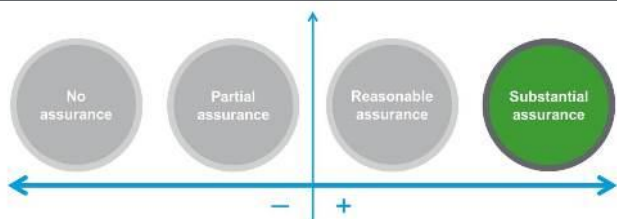
Taking account of the issues identified, the board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Urgent action is needed to strengthen the control framework to manage the identified risk(s).



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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