



REPORT OF:	HEAD OF CORPORATE POLICY AND PERFORMANCE
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TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	12 JUNE 2018

WARD (S) AFFECTED:	ALL
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SUBJECT:	ANNUAL INTERNAL AUDIT REPORT 2017-18
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

- 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

- 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 RSM, whose annual report for the 2017/18 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.

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

CONSULTATION

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

POLICY FRAMEWORK

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

Background Papers: None



REIGATE AND BANSTEAD BOROUGH COUNCIL

Annual Internal Audit Report 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.



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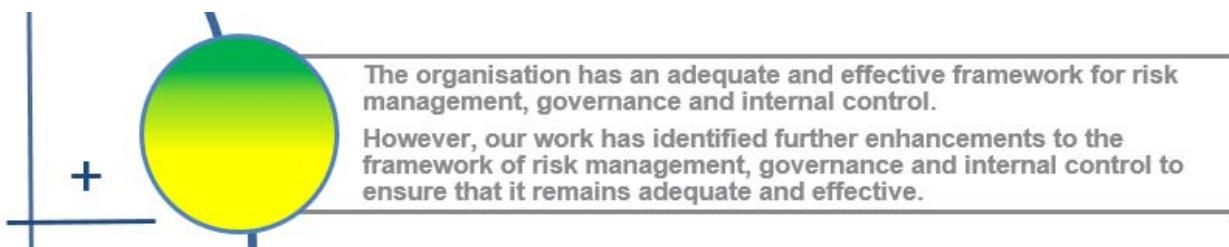
1 THE HEAD OF INTERNAL AUDIT OPINION

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 2018, the head of internal audit opinion for Reigate and Banstead Borough Council is as follows. This is consistent with the prior year and reflective of the balance of individual assignment opinions outlined in Appendix B.

Head of internal audit opinion 2017/18



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

1.2 Scope and limitations 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, our opinion is subject to inherent limitations, as detailed 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 Council takes into account in making its annual governance statement (AGS);
- the opinion is based on the findings and conclusions from the work undertaken, the scope of which has been agreed with management;
- the opinion is based on the testing we have undertaken, which was limited to the area being audited, as detailed in the agreed audit scope;
- where strong levels of control have been identified, there are still instances where these may not always be effective. This may be due to human error, incorrect management judgement, management override, controls being by-passed or a reduction in compliance;
- due to the limited scope of our audits, there may be weaknesses in the control system which we are not aware of, or which were not brought to attention; and

- it remains management's responsibility to develop and maintain a sound system of risk management, internal control and governance, and for the prevention and detection of material errors, loss or fraud. The work of internal audit should not been seen as a substitute for management responsibility around the design and effective operation of these systems.

1.3 Factors and findings which have informed our opinion

Based on the work undertaken up until 31 March 2018 there is reasonable system of internal control which is designed to meet the Council's objectives, and controls are generally being applied consistently and effectively. We have provided either substantial or reasonable level of assurance in the majority of areas we reviewed.

As noted above, we have given either reasonable or substantial assurance to the following reports in the period:

- Homelessness Support;
- Planning Decision Approval Process;
- Management of the Housing Register;
- Car Park Reporting;
- Service and Financial Budget Setting Process;
- Action Tracking;
- Benefits;
- Revenues;
- Emergency Planning;
- Creditors;
- Payroll;
- Risk Management;
- Capital Accounting and Fixed Assets;
- Digital Channel Shift;
- Main Accounting;
- Car Parking; and
- Corporate Governance.

Whilst we have given positive opinions in each of these audits, we have nevertheless identified a number of opportunities to further strengthen the control framework and have agreed a number of management actions to this end.

We have also completed an advisory IT Security Review. This did not result in a formal assurance opinion being given, but we did raise two medium and two low priority actions.

However, we have issued partial assurance in the following area, which has also impacted upon our opinion:

Southern Building Control Partnership (Shared Services)

Our review identified that the first six months of operations have been hampered by software issues which at the start of the year reduced assurances that income has been accurately and promptly recovered. However, we have been informed that since our audit the migration data has been fully validated and signed off and that therefore income figures are now accurate. The control issues experienced were transparently reported to the governance board in January 2018, together with a risk register highlighting actions taken and those planned to mitigate further risk arising. The work from this audit provided a detailed action plan intended to galvanise and consolidate current management considerations. However, we are assured that the issues faced are well understood by the SBCP management team and that the difficulties faced in the first six months of operations are being actively addressed.

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.

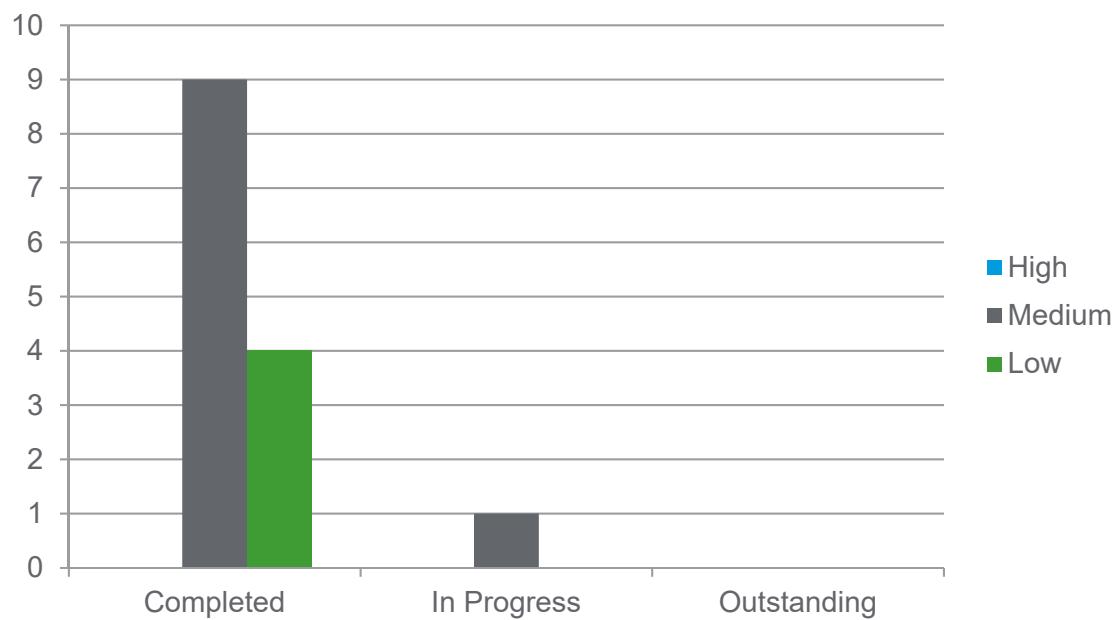
2.1 Acceptance of internal audit management actions

Management have agreed actions to address all of the findings reported by the internal audit service during 2017/2018.

2.2 Implementation of internal audit management actions

Where actions have been agreed by management, these have been monitored by management through the action tracking process in place. We have completed a follow up exercise every six months, looking at any actions raised six months or more prior to the follow up that had not yet been confirmed as implemented.

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. As can be seen from the below there is only one medium action remaining in progress. This relates to developing an automated report which can provide details of payments received in the Vehicle Book and Pay system for vehicle licensing and will be used to reconcile actual to expected income. Whilst this has not yet been fully implemented this has been as a result of IT issues in developing the report and instead from April 2018 Licensing will be using the Uniform system supplied by Idox with financial reconciliation already built in for vehicle licensing, renewal and interim inspections.



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:

- 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 2017/2018 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 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.

3.4 Quality assurance and continual improvement

To ensure that RSM remains compliant with the PSIAS framework we have a dedicated internal Quality Assurance Team who undertake a programme of reviews to ensure the quality of our audit assignments. This is applicable to all Heads of Internal Audit, where a sample of their clients will be reviewed. Any findings from these reviews are used to inform the training needs of our audit teams.

This is in addition to any feedback we receive from client feedback, appraisal processes and training needs assessments.

3.5 Client service standards

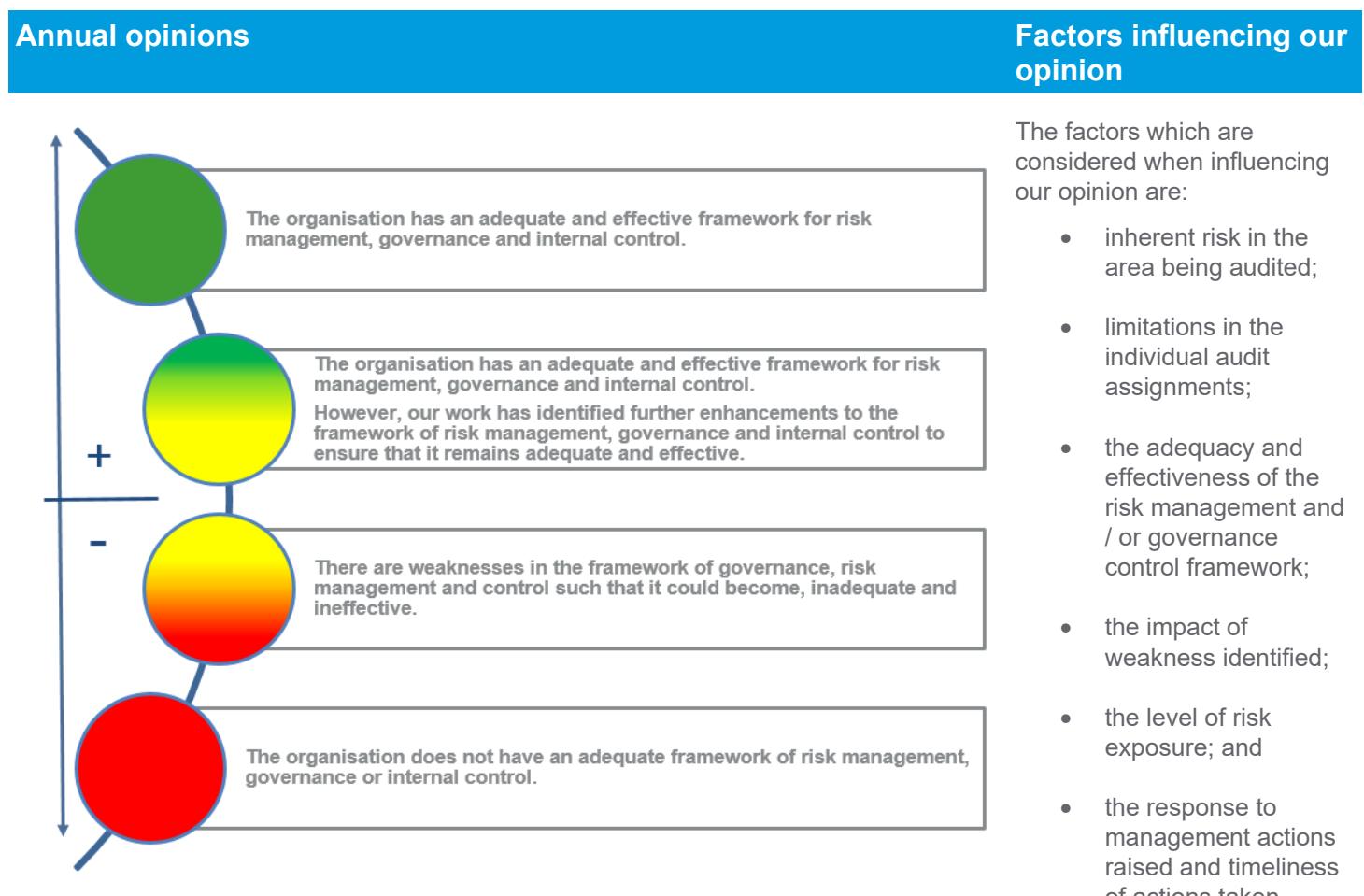
A number of performance indicators were agreed with the Overview and Scrutiny Committee. Our performance against those indicators is as follows:

Delivery	Quality					
	Target	Actual	Notes (ref)	Target	Actual	Notes (ref)
Audits commenced in line with original timescales	Yes	No	1	Conformance with PSIAS	Yes	Yes
Draft reports issued within 10 days of debrief meeting	100%	79%	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
Final report issued within 3 days of management response	100%	93%		Respond to general enquiries for assistance within two working days	100%	100%
% of High & Medium actions followed up	100%	100%	2	Respond to emergencies or notifications of potential fraud within one working day	100%	100%

Notes
1 – Any changes were at the request of Council management
2 – 10 working days is the RSM target per the client care standards, 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.



APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED 2017/2018

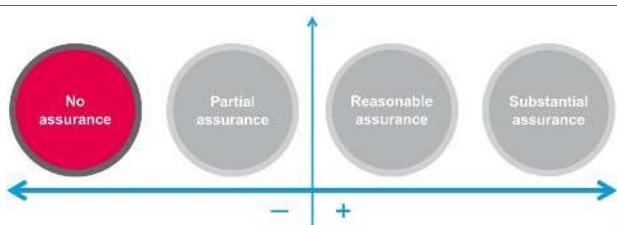
Assignment	Executive lead	Assurance level	Actions agreed		
			H	M	L
Homelessness Support	Richard Robinson, Housing Services Manager	Substantial	0	0	0
Planning Decisions Approval Process	Lucinda Mould, Head of Places and Planning	Substantial	0	0	1
	Gavin Handford, Head of Policy and Performance	Substantial			
Management of Housing Register	Richard Robinson, Head of Housing	Reasonable	0	0	7
Car Park Reporting	Helen Stocker, Finance Manager	Substantial	0	0	1
	Mark Herdman, Business Accountant	Substantial			
Service and Financial Budget Setting Process	Jocelyn Convey, Head of Finance	Substantial	0	0	0
	Gavin Handford - Head of Corporate Policy, Performance & Parking	Substantial			
Benefits	Simon Rosser, Revenues, Benefits and Fraud Manager	Reasonable	0	4	0
Revenues	Simon Rosser, Revenues, Benefits and Fraud Manager	Substantial	0	0	0
	Ian Martin, Revenues Manager	Substantial			
Emergency Planning	Doula Pont, Project and Business Assurance Manager	Substantial	0	1	0

Assignment	Executive lead	Assurance level	Actions agreed		
			H	M	L
Creditors	Martin Trenaman, Transactions Manager	Reasonable	0	1	1
Payroll	Karen Mullett, Payroll Officer	Substantial	0	1	0
Southern Building Control Partnership	Gavin Handford, Head of Policy and Performance	Partial	1	4	2
Risk Management	Doula Pont, Project and Business Assurance Manager	Substantial	0	0	0
Capital Accounting and Fixed Assets	Helen Stocker, Finance Manager	Reasonable	0	1	0
Digital Channel Shift	Fiona Cullen, Head of Customers, Communication and Change	Substantial	0	0	0
Main Accounting	Helen Stocker, Finance Manager	Reasonable	1	0	0
Car Parking		Reasonable	0	2	3

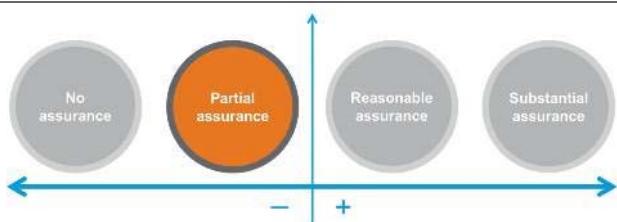
Assignment	Executive lead	Assurance level	Actions agreed		
			H	M	L
Corporate Governance	Chris Phelan - Democratic Services Manager	Substantial	0	0	2
IT Security Review	Fiona Cullen, Head of Customers, Communication and Change	N/a - Advisory	0	2	2

All of the assurance levels and outcomes provided above should be considered in the context of the scope, and the limitation of scope, set out in the individual Assignment Report.

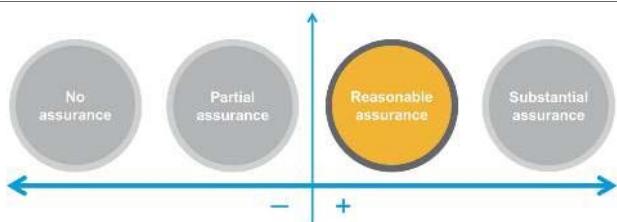
We use the following levels of opinion classification within our internal audit reports. Reflecting the level of assurance the board can take:



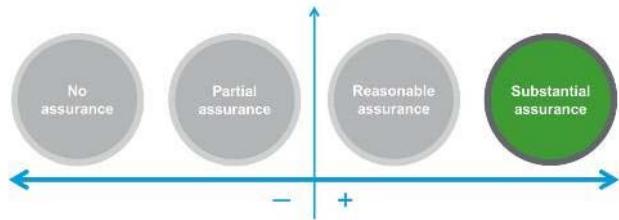
Taking account of the issues identified, the board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Urgent action is needed to strengthen the control framework to manage the identified risk(s).



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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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. Actions for improvements should be assessed by you for their full impact. 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.

Our report is prepared solely for the confidential use of Reigate and Banstead Borough Council, and solely 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.

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