

**Annual Internal Audit Report & Opinion
2020-21**

Reigate & Banstead Borough Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

Contents

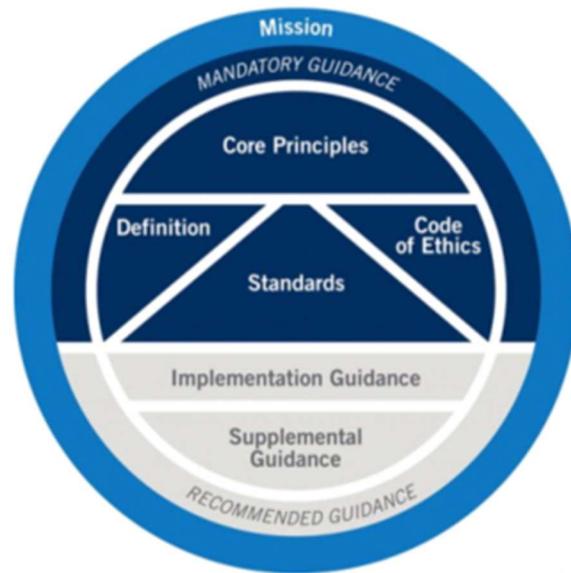
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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].



The role of internal audit is best summarised through its definition within the Standards, as 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 bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation’s objectives.

2. Internal Audit Approach

To enable effective outcomes, internal audit provides a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary. A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

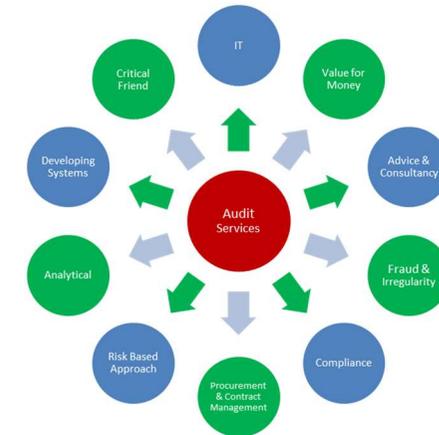
- Level of assurance required;
- Significance of the objectives under review to the organisation's success;
- Risks inherent in the achievement of objectives; and
- Level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.

The impact of COVID-19 during the year has had a significant impact on the way we have worked and interacted. The enforced central government directive '*if you can work from home, you must do so*' has required the Southern Internal Audit Partnership to adopt a revised operating model and innovative approach to virtual auditing.

Work contributing to my 2020/21 annual opinion has all been undertaken virtually, optimising technology and virtual platforms to share, monitor and observe operations to substantiate our findings.

I am confident that the revised operating model has not compromised quality or SIAPs ability to complete assurance work throughout the year or the conclusion drawn. I would wish to extend my appreciation to Council officers with whom we have worked during the year for their support, cooperation, and seamless transition to the virtual audit approach without which the delivery of an annual opinion would not have been possible.



3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of the Council's audit need that has been covered within the period.

Annual Internal Audit Opinion 2020-21

"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Reigate & Banstead Borough Council's internal control environment.

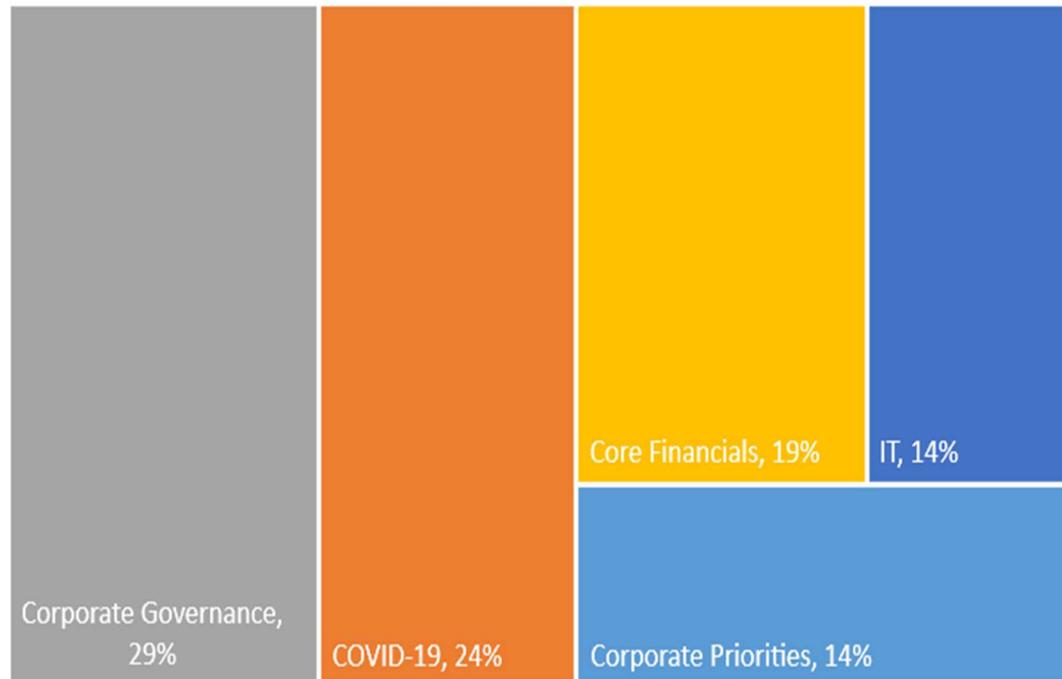
In my opinion, Reigate & Banstead Borough Council's framework of governance, risk management and control is 'Reasonable' and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.

Audit Reviews by Type



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2020-21 Internal audit plan, approved by the Audit Committee in July 2020, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

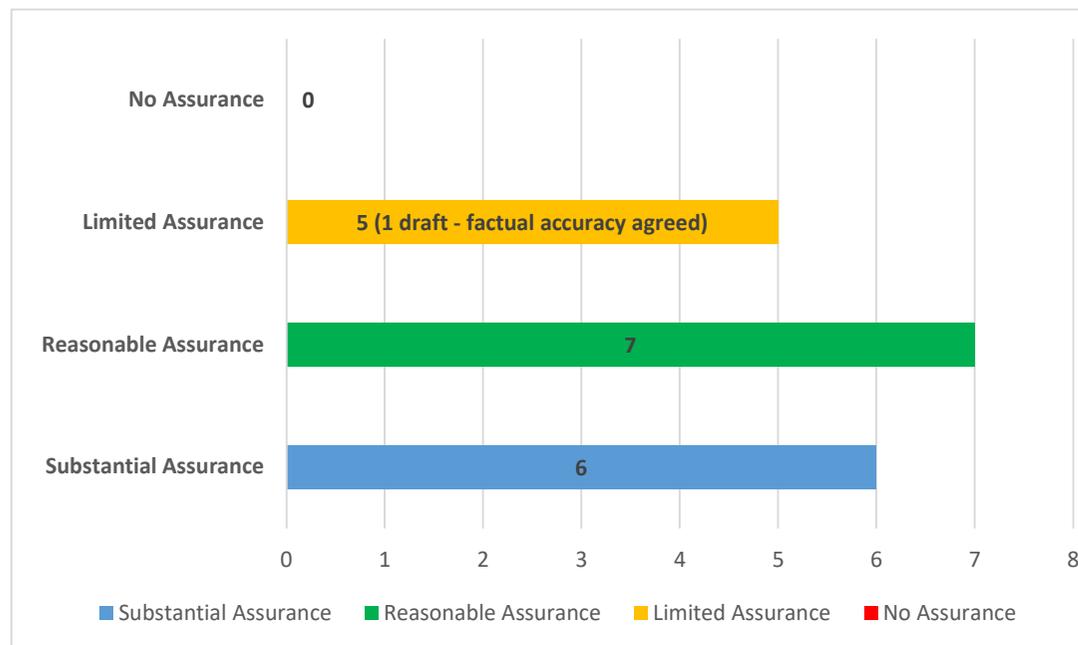
The scale of COVID-19 coupled with the speed of its impact and the wide-ranging challenges presented has necessitated new and different ways of working across the Council. Such challenges and subsequent resolutions bring with them new and emerging risks that management need to consider, manage, and mitigate. The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion internal audit have undertaken 21* reviews during the year ending 31 March 2021.

Due to the significant impact and subsequent challenges posed by the coronavirus pandemic (Covid-19), there has been an inevitable impact on the delivery of the revised 2020-21 internal audit plan.

Work is substantially complete, and an opinion has been formed for 2 reviews (Information Security, for which factual accuracy has been agreed, and Environmental Health & Licensing) however, final reports have not yet been agreed.

Fieldwork remains in progress in respect of 1 review (HR Establishment Controls). It is fully anticipated that assurance work will be completed in the near future and reported to Senior Management and the Audit Committee as part of our next progress report. I do not expect the outcomes of this review to adversely impact my annual opinion.



Substantial –A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

*1 review did not culminate in an audit opinion as it related to a review of the Local Government Compensation Scheme claims.

A list of the 2020-21 assurance reviews undertaken and their respective opinions is provided in Annex 1

5. Key Observations

There were no 'No Assurance' opinions issued during the year. In general, internal audit work found there to be a sound control environment in place across a majority of review areas that were working effectively to support the delivery of corporate objectives, however, there were some areas identified that provide challenge to the organisations risk environment:

Fleet Management

The effective maintenance of the Council's fleet is essential to ensure compliance with legislative and health & safety requirements. Whilst not significant in numbers the audit did highlight areas of non-compliance that leaves potentially significant risk exposures, including one vehicle having no MOT in place at the time of the audit and two occasions where inspections to lifting equipment had lapsed.

Additionally, the Fleet Driving Policy requires drivers to undertake driving assessments biennially. None of those sampled had complied with that requirement. There were also gaps in the verification of driving licences prior to staff driving Council vehicles.

Procurement

The Constitution clearly articulated the Council's Financial Regulations and Contract Procedure Rules (CPR's) and were being revised to take account of Brexit developments and updates to UK procurement regulations.

It was confirmed that a procurement strategy (2010) was held but has not been used as a point of reference for some considerable time. The absence of an overarching corporate procurement strategy weakens assurances that the objectives and key required outcomes for the Council's procurement function have been defined, supported or delivered.

Analytical review of spend data across a 12-month period identified 120 Suppliers, each with an aggregated spend higher than £25k, where contract arrangements would be expected to be in place.

A waiver register, in respect of those areas of procurement not required to comply with CPR's, was not in place to provide a central point of reference and consistent review of the waiver process. We also noted that when waivers were granted, they were not timebound.

The Contracts register was not found to be proactively used to identify contracts expiring that may require review and possible renewal.

Credit Cards

This review was included within the audit plan at the request of the Interim Head of Finance and S151 Officer and has focused on an analysis of expenditure made on credit cards over a nine-month period (November 2019 to July 2020) to analyse the impact of changes to working practices and urgent spending during COVID-19 compared to prior usage.

At the time of the audit the Council had 26 corporate credit cards assigned to individual officers, and the number of cards did not increase during the pandemic. Pre COVID (November 2019 to March 2020) the Council had an average spend of £21,000 per month across all cards combined. With the exception of April 2020, the average spend did not significantly increase during May 2020 to July 2020.

As part of this review assurance was further sought that expenditure was in accordance with relevant policies/ business need and that transactions were authorised and accurately recorded.

Analytical review and testing highlighted that credit card agreements were not held for all card holders; receipts for purchases were not consistently retained; VAT was not always appropriately accounted for; card holders were allowing other officers to use their cards; and authorisation of increases to card and transaction limits were not evident.

Information Security – Data Centre Security

Roles, responsibilities, and the approval process for computer room access were not formally documented. There were a high number of employees with permanent access to the computer suite increasing the risk to ICT infrastructure. Computer room access permissions on contractor cards and management of temporary staff cards was inconsistent, and no regular reviews of access rights had taken place.

External visitors to the server rooms were not recorded, and those visitors as well as contractors were not required to formally agree to the security requirements before accessing server rooms.

The Earlswood Depot server room was secured with a combination padlock. The combination padlock has a weak mechanism that can be forced and decrypted. Additionally, the number of staff requiring access the room meant the combination had to be widely shared. Staff holders of the padlock combination were not formally identified and recorded, and the combination was not changed on a regular basis or when staff leave.

It was also found that the CCTV cameras in the Town Hall did not cover the entrance or the path to the server room, and the Earlswood Depot had no internal CCTV cameras.

IT Disaster Recovery

Please see Annex 2 for details.

Financial Resilience

The Council maintain a sound framework of financial control and management, however, whilst a balanced budget, supported by a draw on reserves, has been set for 2021/22 there remains a challenge to the financial resilience of Reigate & Banstead Borough Council from 2022/23 onwards.

The MTFP highlights a forecast budget gap of £3.149m over the medium term (compared to the 2020/21 budget – before ongoing COVID 19 impacts). The Council have acknowledged (in a report to the Executive on 28 January 2021) that over the medium-term sustainable solutions that reduce costs or increase income on a permanent basis will have to be identified for 2022/23 onwards which may include:

- Pursuing commercial investments to generate new income streams.
- Considering options for asset sales.
- Continuing the fees and charges review.
- Planning for 2022/23 staff pay negotiations.
- Reviewing in-year budget forecasts to identify new opportunities for savings and efficiencies.

The Council's Commercial Strategy sets out the potential areas for generating income and is scheduled that the detail of such commercial activities will be subject to review by an appointed scrutiny panel to be convened in July 2021.

The Council currently maintain a reasonably healthy level of reserves; however, they are not finite, and if savings do not materialise there is a risk of continual draw which is not a sustainable solution to balancing the revenue budget in the medium to longer term.

6. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within ‘the Standards’.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An ‘External Quality Assessment’ of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020.

In considering all sources of evidence the external assessment team concluded:

‘The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles. We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.’

7. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments], I can confirm through endorsement from the Institute of Internal Auditors that:

‘the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’

There are no disclosures of Non-Conformance to report.

8. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2020-21 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- An independent external quality assessment against the IPPF, PSIAS & LGAN.

9. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

| Performance Indicator | Target | Actual |
|--|-----------|-----------|
| Percentage of internal audit plan delivered | 95% | 86% |
| Positive customer survey response | | |
| <ul style="list-style-type: none"> • Reigate & Banstead Borough Council | 90% | 97% |
| <ul style="list-style-type: none"> • SIAP – all Partners | 90% | 98% |
| Public Sector Internal Audit Standards | Compliant | Compliant |

Customer satisfaction was collated for SIAPs EQA and is an assessment of responses to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process (survey date May 2020).

10. Acknowledgement

I would like to take this opportunity to thank all those staff throughout the Council with whom we have made contact in the year. Our relationship has been positive, and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman
Head of Southern Internal Audit Partnership
May 2021

2020-21 Audit Reviews and Opinions

| Substantial Assurance | Reasonable Assurance | Limited Assurance | No Assurance |
|--|--|---|--------------|
| <ul style="list-style-type: none"> • Programme & Project Management • COVID-19: Small Business Grants • COVID-19: Discretionary Payments • Housing Benefits • Payroll • Homelessness | <ul style="list-style-type: none"> • Risk Management • Health & Safety • COVID-19: Decision Making & Governance • COVID-19: Emergency Response & Recovery • Cyber Security • Treasury Management • Financial Resilience | <ul style="list-style-type: none"> • Fleet Management • Procurement • Procurement – Credit Cards • IT Disaster Recovery • Information Security – Data Centre Security (Draft Report – factual accuracy agreed) | |

*1 review did not culminate in an audit opinion as it related to a review of the Local Government Compensation Scheme claims.