



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

REIGATE AND BANSTEAD BOROUGH COUNCIL
Annual Internal Audit Report & Opinion 2021-2022

Prepared by: Neil Pitman, Head of Partnership

June 2022

Contents

Section	Page
1. Role of Internal Audit	2
2. Internal Audit Approach	3
3. Internal Audit Coverage	4
4. Internal Audit Opinion	5
5. Governance, Risk Management & Control – Overview & Key Observations	6-12
6. Quality Assurance and Improvement	12
7. Disclosure of Non-Conformance	13
8. Quality control	13
9. Internal Audit Performance	14
10. Acknowledgement	14
Annex 1 – Summary of Audit Reviews Completed 2021-22	15-17

1. Role of Internal Audit

The Council is required by the Accounts and Audit (England) Regulations 2015, to

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

In fulfilling this requirement, the Council should have regard to the Public Sector Internal Audit Standards (PSIAS), as the internal audit standards set for local government. In addition, the Statement on the Role of the Head of Internal Audit in Public Service Organisations issued by CIPFA sets out best practice and should be used to assess arrangements to drive up audit quality and governance arrangements.

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 organisations’ 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.

As the Chief Internal Auditor, I review the approach to each audit, considering the following key points:

- Level of assurance required.
- Significance of the objectives under review to the organisations' success.
- Risks inherent in the achievement of objectives.
- 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 Southern Internal Audit Partnership (SIAP) maintain an agile approach to audit, seeking to maximise efficiencies and effectiveness in balancing the time and resource commitments of our clients, with the necessity to provide comprehensive, compliant and value adding assurance.

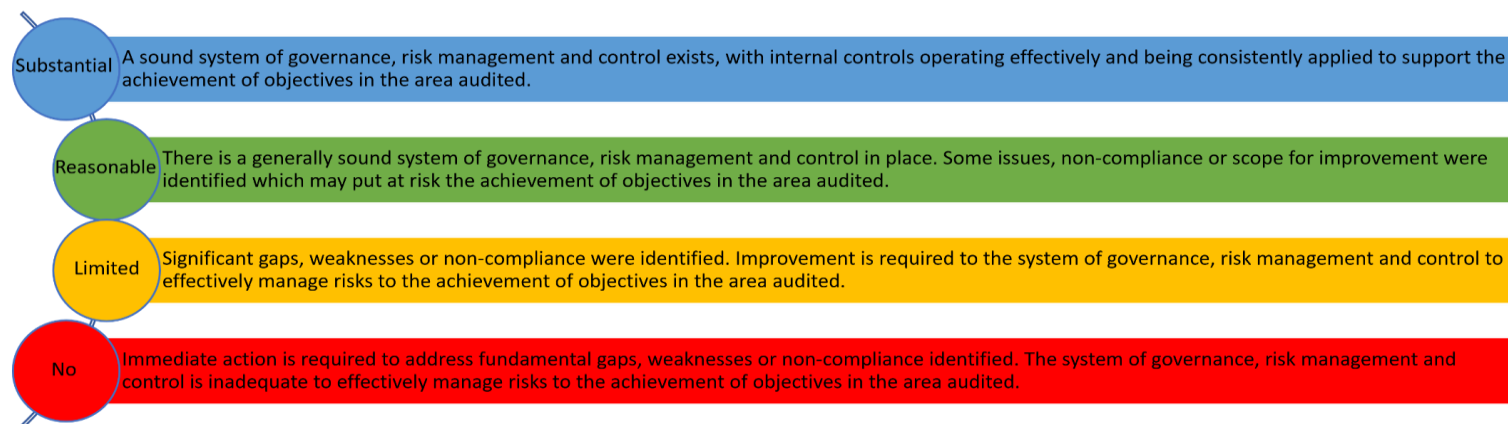
Working practices have been reviewed, modified and agreed with all partners following the impact and lessons learned from the COVID-19 pandemic and as a result we have sought to optimise the use of virtual technologies to communicate with key contacts and in completion of our fieldwork. However, the need for site visits to complete elements of testing continues to be assessed and agreed on a case-by-case basis.

3. Internal Audit Coverage

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council activities and to support the preparation of the Annual Governance Statement. Work has been planned and performed to obtain sufficient evidence to provide reasonable assurance that the internal control system is operating effectively.

The 2021-22 internal audit plan was considered by the Audit Committee in March 2021. It was informed by internal audit's own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation. The plan has remained fluid throughout the year to maintain an effective focus and ensure that it continues to provide assurance, as required, over new or emerging challenges and risks that management need to consider, manage, and mitigate. Changes made to the plan were agreed with the Chief Finance Officer and reported in detail to the Audit Committee in the internal audit progress reports which were reviewed at each meeting.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. The assurance opinions are categorised as follows:



4. Internal Audit Opinion

As Chief Internal Auditor, I am responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform their annual governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisations' 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.

We enjoy an open and honest working relationship with the Council. Our planning discussions and risk-based approach to internal audit ensure that the internal audit plan includes areas of significance raised by management to ensure that ongoing organisational improvements can be achieved. I feel that the maturity of this relationship and the Council's effective use of internal audit has assisted in identifying and putting in place action to mitigate weaknesses impacting on organisational governance, risk and control over the 2021-22 financial year.

Annual Internal Audit Opinion 2021-22

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 the internal control environment.

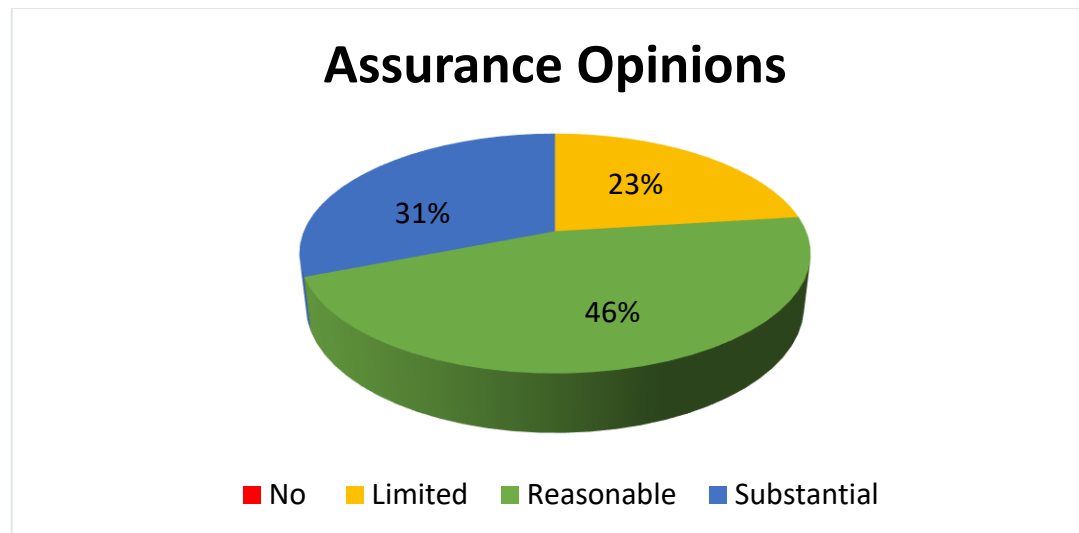
In my opinion frameworks of governance, risk management and management control are **reasonable** and audit testing has demonstrated controls to be working in practice.

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

5. Governance, Risk Management & Control – Overview & Key Observations

Assurance opinions for 2021-22 reviews

The findings from our reviews have been reported to the Audit Committee in full throughout the year and a summary of the assurance opinions is outlined below. None of the reviews carried out during 2021/22 resulted in a 'no assurance' rating.



Governance

Governance arrangements are considered during the planning and scoping of each review and in most cases, the scope of our work includes overview of:

- the governance structure in place, including respective roles, responsibilities and reporting arrangements
- relevant policies and procedures to ensure that they are in line with requirements, regularly reviewed, approved and appropriately publicised and accessible to officers and staff.

In addition, during 2021-22 we undertook reviews of the Annual Governance Statement, which concluded with a substantial assurance opinion and Information Governance which concluded with a reasonable assurance opinion.

Based on the work completed during the year and observations through our attendance at a variety of management and governance meetings, in our opinion the governance frameworks in place across the Council are robust, fit for purpose and subject to regular review. There is also appropriate reporting to the Audit Committee to provide the opportunity for independent consideration and challenge including the in-year update and review of the Code of Corporate Governance and the Annual Governance Statement.

Risk management

We last reviewed risk management arrangements in the Council in 2020/21 which resulted in a reasonable assurance opinion. The evidence obtained during the review demonstrated that risk management arrangements were sound, documented and embedded within the Council.

In accordance with the constitution, the Audit Committee play a key role in '*monitoring the effective development and operation of risk management in the Council*'. This has been supported throughout the year through the Committees overview of the Risk Management Strategy and overview of the Risk Register which has features as a regular agenda item throughout the year.

The risk register is a key document that is taken into account during the development of our risk based internal audit plan, with the planned reviews mapped to the risk register. The information in the risk register is taken into account when scoping each review in detail to ensure that our work is appropriately focussed.

Control

In general, internal audit work found there to be a sound control environment in place across the majority of review areas included in the 2021-22 plan that were working effectively to support the delivery of corporate objectives.

We generally found officers and staff to be well aware of the importance of effective control frameworks and compliance, and also open to our suggestion for improvements or enhancements where needed. Management actions agreed as a result of each review are monitored to completion to ensure that the identified risks and issues are addressed.

The key areas of challenge identified or confirmed through our work are outlined below:

HR Establishment Controls

The audit reviewed the processes in place for agreeing the number of posts within service areas, and how the relevant senior managers ensure that the agreed establishment posts in their areas are adhered to. The review included the use of off payroll resources (agency workers) as increased reliance has been placed on this resource over recent years to support delivery of the Council's objectives and address skills gaps.

The Council carries out a comprehensive annual service planning and budget process that includes detailed discussions between Finance, HR and Heads of Service to identify areas of growth and/or savings for the forthcoming year. Additional posts or posts that can be deleted as no longer required are identified as part of this process and the associated budget growth and savings are then built into the budget proposals for approval by the Council. Detailed reports on staffing are presented to the Executive and Council as part of the budget planning and approval process. These reports are also subject to detailed review by the Overview and Scrutiny Committee (Budget Scrutiny Panel) prior to being presented to the Executive and Council for approval.

If a Head of Service requires an additional post to be created as part of their establishment, they are required to complete a formal request for this post, and this is considered by a panel of senior management. As part of the request, Finance are required to confirm that there is funding in place for the post requested, however, there is no similar process for hiring agency workers in situations where they are not covering a specific post on the establishment.

Our review found that there is no documented process / procedure for commissioning officers to follow in the appointment of agency workers.

Whilst reported as part of the overall budget monitoring for the Council, any monitoring of the total cost of agency workers is difficult due to the number of different expenditure headings under which payments for agency workers may be recorded and the inconsistency to which payments are attributed to these expenditure codes.

A fixed term contracts report is available from the iTrent HR system, discussions with three Heads of Service identified that 10 out of 19 staff selected from the report were permanent staff, therefore the report is unreliable.

Environmental Health & Licensing

This review focussed on the licensing process for premises to ensure annual fees had been issued in accordance with legislation, payment had been collected and reconciled. Debt Recovery is undertaken outside of Environmental Services and is completed centrally within the Revenues Team.

Testing confirmed that invoices were raised accurately and in a timely manner, however, of those sampled, payment for 33% were overdue at the time of testing. It was confirmed that licensing had not been notified and therefore they had not been suspended (in accordance with legislative requirements). Debt recovery was not actively carried out during Covid-19 and may have impacted this.

When there is a change of billing/correspondence address on a license, the licensing team are required to update their licensing system (Uniform) and inform finance to ensure invoices are sent to the correct address. Of the invoices sampled 33% found that the address within Uniform did not match the address within Agresso.

It was confirmed that access to BWO (Agresso) was available to the licensing team, however, they were unaware of reporting available within the system to determine the status of invoices that would enable them to build efficiencies into their processes.

There were no performance indicators in the Environmental Health Business Plan for licensing. An independent review of the Environmental Service in October 2018 highlighted that *‘there are few performance indicators in the business plans and can result in a lack of clear focus on priorities’*. No action plans are currently in place to address this.

The procedures for the licensing and debt recovery process, owned by the Revenues Team were found to be out of date.

Harlequin Centre – Income, Banking & Reconciliation

This review was completed at the request of the Head of Finance, due to regular anomalies between monies received at the bank and the daily reporting of income received at the Harlequin Centre. This review sought to establish an explanation for these variances.

Daily Return spreadsheets, which record the income received at the Harlequin Centre each day, are forwarded to the Finance team to record the income on the finance system. Five Daily Return spreadsheets were reviewed, together with the relevant documentation to support the card payment values being recorded and accounted for. As a result of COVID-19, the Harlequin Centre had a no cash policy during the period of this audit and therefore, the process for banking and recording cash was not included within this review.

Harlequin Centre

The Harlequin Centre’s procedure documentation, to support the processes followed by the Catering and Front of House staff, had not been updated to reflect the change in processes for the recording of income during COVID-19 restrictions.

The End of Day reports, which provide totals and a breakdown of sales for the Café, Bar and Kiosk showed the sales recorded did not always agree to the Z till reading totals. This had not been identified by either the quality assurance review by the Duty Manager or by the Admin and Finance Supervisor. The Centre staff were unable to identify why the totals were different, bearing in mind both the Z till reading and the End of Day Report were generated from the till system.

A review of the Daily Return spreadsheets, for the five days under review, showed several errors. This would suggest there is no consistent independent check of the Daily Return figures, prior to them being forwarded to the Finance team for processing. Values entered on the Daily Tills Control spreadsheet did not agree with the Z till reading and End of Day report for one of the days reviewed.

Finance

A review of the General Ledger transactions, for the Harlequin cost centre and account code combinations, confirmed the values being entered, for the five days under review, were recorded accurately within the finance system based on the data provided within the Daily Return.

However, when the Finance Officer is unable to match the card receipts bank statement lines, with the Daily Returns received from the Harlequin Centre, an additional adjustment line is added to the Daily Return and an additional General Ledger transaction line is created. This action is not reviewed, or quality assured by any other member of the Finance Team. Additional income, or refund, transactions are being generated within the General Ledger, with no supporting documentation. During this review, our testing found that none of the adjustment lines within our sample were necessary and had been added erroneously. These errors were compounded by inaccurate Daily Returns completed by the Duty Managers.

Financial Resilience

Uncertainty over future funding and the longer-term implications of COVID-19 remain a significant financial risk for local authorities and continue to present a major challenge. This is further compounded by the emerging implications of the Ukraine conflict and the ongoing cost of living crisis.

Reigate & Banstead BC have set and approved a balanced budget for 2022/23 which is supported by £1.777m from reserves. The Council acknowledge a continued reliance on reserves is not sustainable and future projections indicate a significantly reduced draw on reserves in future years. To help address this impact a Financial Sustainability Programme is being developed to consider future forecast budget gaps are addressed.

Whilst savings have been identified within the 2022/23 budget, there remains a predicted budget gap through to 2026/27 of £4.123m.

As with all local authorities across the country, there remains significant risk and challenge to financial resilience in the medium term.

Management actions

Where our work identified risks that we considered fell outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers.

Progress is reported to the Audit Committee throughout the year through the quarterly internal audit progress reports.

6. Quality Assurance and Improvement

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a Quality Assurance and Improvement Programme (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 provision for 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 2021-22 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.
- 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 (to draft report)	95%	94%
Positive customer survey response		
● Reigate & Banstead Borough Council	90%	91%
● SIAP – all Partners	90%	99%
Public Sector Internal Audit Standards	Compliant	Compliant

Customer satisfaction 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 April 2022).

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

June 2022

Annex 1

Summary of Audit Reviews Completed 2021-22

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.

Review area	Summary
Accounts Receivable & Debt Management	This review looked at the accounts receivable and debt management activities carried out by the Council. Testing included raised invoices, payment collection, debtor maintenance, debt recovery and write-offs to ensure key controls are operating effectively and efficiently. A robust control framework was found to be operating and no significant issues were identified.
Annual Governance Statement	The scope of this audit was to review the Annual Governance Statement for the Council and how it complied with its code of governance, CIPFA guidance, and met Regulation 6 of the Accounts and Audit Regulations 2015 and the Accounts and Audit (Coronavirus) (Amendment) Regulations 2021. A robust control framework was found to be operating and no issues were identified.
Capital Programme	The scope of this audit focused on the Capital Strategy and Capital Programme including the governance of each. It included the monitoring and reporting of progress to members and a review of a sample of individual capital projects along with the relative governance arrangements in place. A robust control framework was found to be operating and no issues were identified.
HR – Absence Management	The scope of this review focused on absence management activities, in order to confirm compliance with relevant policies. This included reviewing absence management processes covering reporting, recording and return to work procedures, as well as the management information available to support effective management of sickness absences. Testing covered records from the 2021/22 financial year, to ensure key controls have operated effectively and efficiently. A sound framework of governance and control was found. One observation was reported relating to the methods used by employees to notify line management of sickness absences and how this is not always in line with the Sickness Absence Policy.

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.

Review area	Summary
Information Governance	This review found a sound system of controls in place relating to roles and responsibilities, FOI and SAR requests, data breaches and data sharing protocols. Observations were raised regarding the need for review and update of the information asset register and departmental schedules of data destruction.
IT Governance	This audit sought to obtain assurance that software licences acquired by IT to run IT infrastructure, applications and end user devices are managed to ensure they support the Council's business operations in a cost effective and compliant way. This review did not include line of business systems for which license management is devolved to service areas. Good controls were identified although observations relating to the lack of a documented software asset policy and also the inconsistent approach to reviewing allocated licences to ensure that they continue to be required were reported.
Virtualisation (Networking & Communications)	The audit reviewed IT's management of the Council's virtualised environments with regard to secure configuration, administration and capacity controls. Effective controls were identified for the secure configuration, network traffic security, access control and capacity monitoring. Areas for improvement of controls were identified in the administration, consistent application of anti-virus software to virtual servers and procedure documentation.
Accounts Payable	This review looked at the accounts payable activities carried out by the Council to ensure prompt and accurate payment of authorised supplier invoices and the maintenance of AP related ledger accounts and supplier records. A sound control framework was found to be operating and no significant issues were identified.
Disabled Facility Grants	This audit focused on processes in place to review and authorise DFG applications, prior to the works commencing. It also included a review of the process to approve the contractors used in completing these works and analysed the impact COVID may have had on an increase in the approved value of DFG's. In general, a sound framework of governance and control was found to be in place with observations highlighting areas of weak segregation of duties and some inconsistencies in the completion of required documentation.
Non Housing Property Management & Maintenance	This audit focussed on the controls and processes in place regarding property maintenance of the Council's non-housing assets. Tenanted, commercial and investment properties were outside of the scope of this audit. Although our sample testing confirmed that all statutory maintenance/health and safety assessments had been completed correctly, the Health and Safety Management spreadsheet was found not to be up to date. We also found that the Council does not have a current Asset Management Plan (AMP) in place to direct and control activities. A reactive (unplanned) repairs log record is also not maintained.

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.

Review area	Summary
HR – Establishment Controls	This audit reviewed the processes in place for agreeing the number of posts within service areas, and how the relevant senior managers ensure that the agreed establishment posts in their areas are adhered to. The review included the use of off payroll resources (agency workers) as increased reliance has been placed on this resource over recent years to support delivery of the Council's objectives and address skills gaps. Whilst formal processes are in place for new posts to be created within the establishment there was no similar process for hiring agency workers where they are not covering a specific post within the establishment. Additionally, management information to monitor the cost of agency workers was not readily available and difficult to acquire.
Environmental Health & Licensing	This review focussed on the licensing process for premises to ensure annual fees had been issued in accordance with legislation, payment had been collected and reconciled. Debt Recovery action is undertaken outside of Environmental Services and is completed centrally within the Revenues Team. Testing found procedures to be out of date and actions from a prior independent review of Environmental Service had yet to be fully implemented. Additionally, invoice billing details retained in Uniform (licencing system) did not reconcile to Agresso (finance system) for one third of the invoices reviewed (billing addresses not financial values).
Harlequin Centre – Income, Banking & Reconciliation	This review was completed at the request of the Head of Finance, due to regular anomalies between monies received at the bank and the daily reporting of income received at the Harlequin Centre. This review sought to establish an explanation for these variances. Anomalies were found to emanate from poor cashing up processes and weak management oversight at the Harlequin Centre compounded by an inefficient reconciliation process within the Finance team.