

Agenda Item 5

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Subject	Internal Audit (RSM UK) Progress Report 2016/17, Annual Report 2016/17 and 2017/18 Plan
<u>RECOMMENDATIONS</u>	
1.1	That the Committee <ul style="list-style-type: none"> (i) notes the progress against the 2016/17 Audit Plan as detailed in the attached appendix (ii) notes the content of the 2016/17 Annual Report and (iii) approves the revised Internal Audit Plan and Charter for 2017/18

<u>SUMMARY</u>	
2.1	This report combines the latest updates and plans from our Internal Auditors, RSM UK. It comprises the final progress update from the 2016/17 programme of reviews, the Annual Report overview of the 2016/17 year and the revised Plan for 2017/18 reviews.

BACKGROUND

- 3.1 Internal Audit is a statutory requirement in local government as defined in the Local Government Act 1972. The Accounts and Audit Regulations 2011 (Regulation 6) require the Council to "maintain an adequate and effective internal audit of its accounting records and of its system of internal control".
- 3.2 The Council has delegated this responsibility to the Deputy Chief Executive (and Section 151 Officer) and appointed RSM UK (formerly Baker Tilly) as its Internal Auditor through a joint contract with neighbouring Local Authorities (Reigate & Banstead BC, Epsom & Ewell BC and Tandridge DC).

PROGRESS ON 2016/17 REVIEWS

- 4.1 RSM UK's final Progress Report for 2016/17 is attached as Annex A. The previous progress report was provided to the March 2017 meeting of the Audit Committee.
- 4.2 The Audit "opinion" following each investigation undertaken by RSM UK is categorised in traffic light fashion as follows . . .
- GREEN – substantial assurance can be taken that the controls are suitably designed, consistently applied and effective;
 - AMBER/GREEN – reasonable assurance can be taken that the controls are suitably designed, consistently applied and effective;
 - AMBER/RED – partial assurance can be taken that the controls are suitably designed, consistently applied and effective but action needs to be taken to manage the risk;
 - RED – no assurance can be taken that the controls are suitably designed, consistently applied and effective; action needs to be taken to ensure this risk is managed.
- 4.3 The four reports that have been finalised since the previous report to the Audit Committee are all GREEN opinions. The main findings, recommendations and management actions for each review are set out in Appendix A.

2016/17 ANNUAL REPORT

- 5.1 Appendix B contains the Internal Auditor's Annual Report for 2016/17. The purpose of the report is to summarise, for Members of the Audit Committee, the overall 2016/17 programme and progress against the audit plan.
- 5.2 17 reviews were completed during 2016/17 of which the "traffic light" opinions were 9 GREEN, 6 AMBER/GREEN and one AMBER/RED.
- 5.3 The AMBER/RED, "partial" assurance was in relation to a follow-up review of Procurement. The Internal Auditor's Annual Report highlighted a lack of progress on Procurement in relation to some areas highlighted in the previous audit, namely staff guidance, governance and contract compliance. The service has been stretched in the last year by the Council's increase in large-scale capital activity and long-term staff absence. Steps have recently been taken to strengthen the service by appointing additional temporary support and streamlining the management structure to bring Legal and Financial Procurement expertise closer together. A full update will be provided in the November report on Procurement to the Audit Committee.
- The annual internal audit opinion
- 5.4 The Annual Report contains an overall opinion on the authority's framework for risk management and governance, based on the work carried out during the year:-

Head of internal audit opinion 2016/17

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 internal control to ensure that it remains adequate and effective.

- 5.5 The RSM UK methodology allows for a range of four possible opinions. This one represents the second most satisfactory. In traffic light terms, it is equivalent to AMBER/GREEN and is the same as the previous year's opinion.
- 5.6 The opinion is informed by the outcome of the reviews undertaken during the year as well as the assessment of the implementation of audit recommendations.

2017/18 INTERNAL AUDIT PLAN

- 6.1 Appendix C contains the proposed Internal Audit Plan for 2017/18.
- 6.2 This has been revised and is re-presented to the Committee following the March 2017 meeting. Some amendments to the programme of reviews have been made, mainly in relation to timing during the year following consultation with the Council's Senior Management Team. The report contains the Internal Audit Charter. There is also further background material on the Internal Audit standards, approach and assessment of the client's risks.

CORPORATE IMPLICATIONS

- 7.1 **Monitoring Officer commentary** – No legal implications contained within the report.
- 7.2 **Statement of the s151 Officer : Financial Implications** - There are no direct financial implications arising from this report.
- 7.3 **Risk Implications** – Delivery of the Internal Audit Strategy is based upon an analysis of:
- Risk based coverage such as Risk Management, Corporate Governance Reviews and Information Technology (IT) Systems in the Council.
 - Addressing specific key risk areas in the Plan
 - Follow-up review and management of the Audit Plan
- 7.4 **Equalities Implications** – None contained within the report.
- 7.5 **Employment Issues** – None contained within the report.
- 7.6 **Sustainability Issues** – None contained within the report.
- 7.7 **Consultation** – None contained within the report.