

Agenda Item 5

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Ward	The Annual Report covers the whole District
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Subject	Internal Audit – Annual Report 2015/16
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RECOMMENDATIONS

- 1.1 That the Committee notes the Internal Audit Annual Report 2015/16.

SUMMARY

- 2.1 This report contains the Internal Auditor’s Annual Report for 2015/16. The purpose of the report is to update Members of the Audit Committee on the overall 2015/16 programme and progress against the audit plan. The Head of Internal Audit opinion, as expressed in the report, is that the organisation’s framework for risk management and governance is “adequate and effective”.

BACKGROUND

- 3.1 Internal Audit is undertaken in line with the provisions of s151 of the Local Government Act 1972 and subsequently the Accounts & Audit Regulations 2011. An authority must “make arrangements for the proper administration of . . . financial affairs” and “maintain an adequate and effective internal audit of its accounting records and of its system of internal control”.
- 3.2 The Council has “outsourced” the Internal Audit function, though it could be discharged through an internal team and still satisfy the statutory requirement. RSM UK is the Council’s appointed Internal Auditor through a joint contract with neighbouring Local Authorities (Reigate & Banstead BC, Epsom & Ewell BC, Tandridge DC, Waverley BC and Surrey Police). Internal Audit plays a vital role in providing reassurance to management that appropriate arrangements are in place and working effectively.

ANNUAL REPORT 2015/16 (Appendix A)

- 4.1 RSM UK's Annual Report for 2015/16 is attached as Appendix A.

Summary of 2015/16 reviews

- 4.2 13 reviews were undertaken in 2015/16. The Audit "opinion" following each review 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 – some 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 Of the 13 "traffic light" opinions delivered by RSM UK in 2015/16, 5 (38%) were GREEN, 7 (54%) were AMBER/GREEN and 1 (8%) was RED. This represents another good year in terms of the overall level of assurance for the authority's Senior Management Team. It is similar to the pattern of opinion in the previous year.
- 4.4 The one report with a RED opinion was in relation to the Payment Card Industry Scheme (PCIS) where concerns were raised about compliance with the industry standard on accepting credit card payments remotely. The detailed findings of this review, as well as the Management Action Plan to respond, were reported to the previous meeting of Audit Committee. Steps have been taken to improve matters in line with the Audit recommendations and a cross-service team has been set up to respond in full and to keep abreast of changes in this fast moving area. A follow-up review by RSM UK is scheduled for December 2016, by which time the recommendations of RSM UK's Specialist Auditor in this field will have been implemented.

The annual internal audit opinion

- 4.5 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 2015/16

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

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

- 4.6 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 at a similar level to the previous year's opinion.
- 4.7 The opinion is informed by the outcome of the reviews undertaken during the year as well as the assessment of the implementation of previous years' audit recommendations. Ten, out of a total of 45 high and medium level recommendations, were found not to have been implemented when followed up.
- 4.8 These outstanding actions have been followed up internally in the period since the Annual Report was submitted. 8 have since been implemented. The remaining 2 have been delayed pending recruitment to the relevant post and will be actioned when resources allow.

CORPORATE IMPLICATIONS

- 5.1 **Legal Implications** – None contained within the report.
- 5.2 **Financial Implications** - There are no direct financial implications arising from this report.
- 5.3 **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
- 5.4 **Equalities Implications** – None contained within the report.
- 5.5 **Employment Issues** – None contained within the report.
- 5.6 **Sustainability Issues** – None contained within the report.
- 5.7 **Consultation** – None contained within the report.