

27 SEPTEMBER 2021

INTERNAL AUDIT – AUDIT OPINION

SUMMARY

This report sets out the Internal Audit coverage, findings and performance for 2020/21 and presents the Audit Manager's overall assurance opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control environment.

It also covers the self-assessment carried out against the Public Sector Internal Audit Standards (PSIAS) and the progress on the Quality and Assurance Improvement Plan (QAIP) for the year.

RECOMMENDATIONS

Members are requested to:

- I. Note the coverage of assurance obtained across the Council.
- II. Note the level of internal control assessed in 2020/21 through opinion-based audit assurance work.
- III. Note the Audit Opinion given for 2020/21.
- IV. Endorse the Performance Indicators for the internal audit activity for 2021/22.
- V. Note the self-assessment exercise against the Public Sector Internal Audit Standards and the areas of non-conformance with the standards, and
- VI. Endorse the Quality and Assurance Improvement Plan for 2020/21 shown in Appendix C, which details areas of improvement to reduce the areas where the audit activity does not conform to the PSIAS standards.

1 INTRODUCTION

- 1.1 In accordance with the Accounts and Audit (England) Regulations 2015, the Audit Manager is required to report, on an annual basis, on the overall adequacy and effectiveness of Rushmoor Borough Council's framework of governance, Risk Management and control.
- 1.2 The report in Appendix A sets out the internal audit work carried out within 2020/21 and the coverage of work carried out to enable the Audit Manager to form this opinion.
- 1.3 Furthermore, annually the Audit Manager is required to carry out a self-assessment on the internal audit activities conformance with the Public Sector Internal Audit Standards (PSIAS) and communicate this to the Licensing, Audit and General Purposes Committee. The report details the outcome of the self-assessment carried out.

- 1.4 The internal audit plan for 2020/21, was approved by this Committee on the 23 March 2020. Due to the Covid-19 pandemic changes have been made to the plan as assurance have been required in other areas of the organisation. Subsequent changes to the audit plan have been communicated within the regular audit update reports.
- 1.5 Covid-19 had an adverse impact on delivery of audits against the audit plan. The Council prioritised the response to the pandemic and focussed on supporting communities and ensure vital services were provided. This meant that planned audits were in some cases deferred as the availability of auditors and Council staff was not necessarily aligned. Remote working during the pandemic also had an impact on the scope of audits covered during the year.

2 AUDIT OPINION

- 2.1 The report within Appendix A details the areas of assurance obtained in order to form the audit opinion. In assessing the level of assurance to be given for 2020/21, the opinion is based 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 for example PSN certification;
 - The counter-fraud work carried out by the Corporate Investigations Team;
 - the quality and performance of the internal audit service and the extent of compliance with the Standards
 - Participation in the Corporate Governance group.
 - Mitigations in place to minimise the risks identified within the Corporate risk register.

3. CONCLUSION

- 3.1 Insufficient assurance work has been completed within the year to enable a full overall audit opinion to be provided on Rushmoor Borough Council's framework of governance, risk management and management controls. This has been due to a lack of audit resources and insufficient engagement and availability of resources within services.
- 3.2 The impact on the Audit opinion from Covid-19 should also be considered. As set out in paragraph 1.5, the number of audits completed in the year was lower than planned due to availability of audit resources and staff time given other priorities around the Council's response to the coronavirus pandemic.

- 3.3 Whilst it has not been possible to provide an assurance level within the audit opinion above, audit work that has been completed and other governance work carried out with the involvement of audit during the year.
- 3.4 Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement but not tracked and reported to the committee to confirm implementation.
- 3.5 The key areas of non-compliance for the PSIAS, are due to not having:
- An external assessment carried out on the audit activity – *This is due to be carried out every 5 years. However, the cost and resource time required to have this assessment carried out is not seen of benefit at this moment but will be re-evaluated next year.*
 - Up to date policies and procedures – *Due to other higher priority work/ Covid-19 these were not updated during 2020/21 but have been included as an action within the improvement plan within Appendix 3.*
 - Regular meetings with External audit – *Regular meetings have not been carried out with External audit but has been included as an action point within the 2020/21 improvement plan in Appendix 3.*
 - An assurance map in place – *a recent assurance map has not been developed to identify all the areas of assurance which can be/are obtained including 3rd parties.*

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References: *Public Sector Internal Audit Standards (2013)*
<http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>

ANNUAL REPORT AND AUDIT OPINION 2020/21

1. INTRODUCTION

1.1 The Internal Audit plan for 2020/21 was presented to and approved by the Licensing, Audit & General Purposes Committee on the 23 March 2020. The following report and appendices set out:

- The internal audit coverage, findings and performance for 2020/21
- The Audit Manager's opinion on the overall adequacy and effectiveness of the Council's internal control framework, which can be used to inform the Council's governance statement.
- The result of the Public Sector Internal Audit Standards (PSIAS) self-assessment for 2020/21.
- The performance against the agreed Quality Assurance and Improvement Plan (QAIP) for 2019/20
- The Quality Assurance and Improvement plan (QAIP) for the internal audit service for 2021/22.

2. ROLE OF INTERNAL AUDIT

2.1 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.'

2.2 The standards for 'proper practices' in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2016 [*the Standards*]. 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.'

2.3 Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. The Council's response to the internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.

3. INTERNAL AUDIT APPROACH

3.1 To enable effective outcomes, internal audit provides a combination of assurance and consultancy activities. Assurance work involves assessing how well the system and processes are designed and working, with consulting

activities available to help to improve those systems and processes where necessary.

- 3.2 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 assist with improvement.

4. INTERNAL AUDIT COVERAGE AND OUTPUT

Coverage

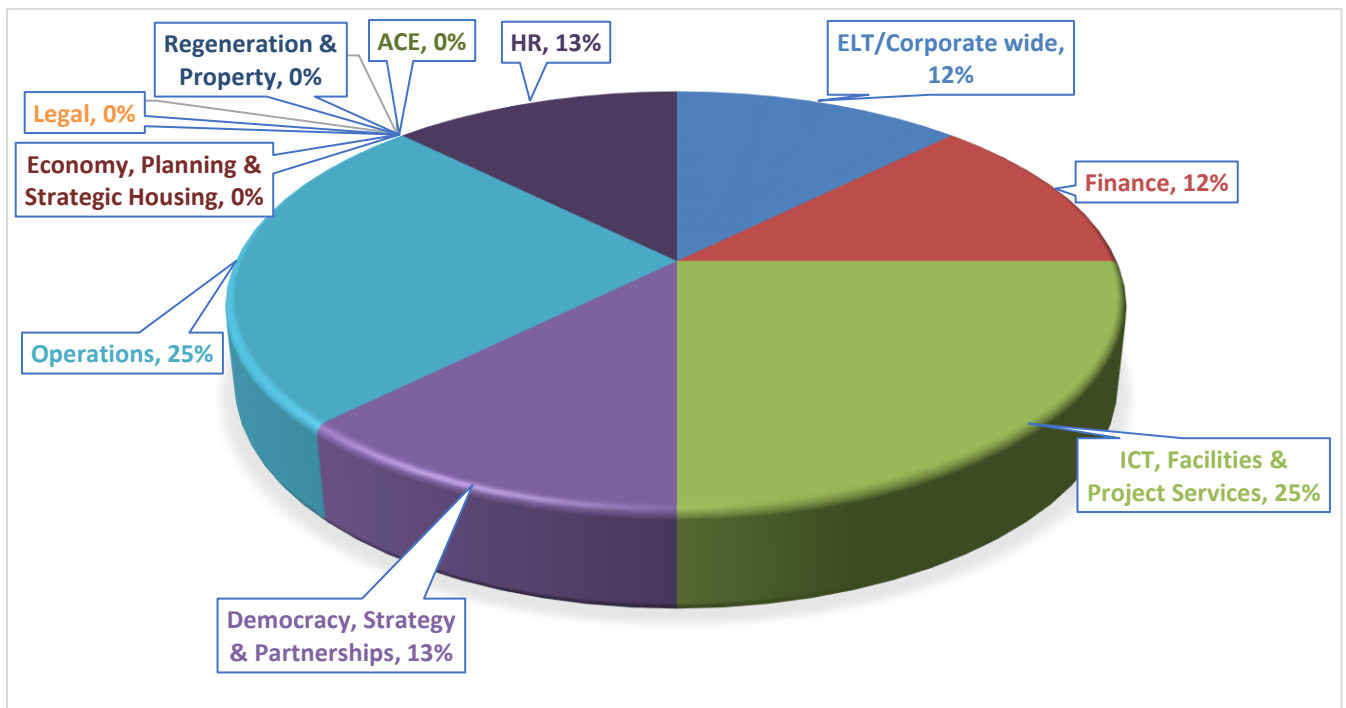
- 4.1 The annual internal audit plan was prepared to take account of internal audits own assessment of risk and materiality in addition to consultation with Senior Management to ensure it aligned to key risks facing the organisation.
- 4.2 The plan has remained fluid throughout the year to ensure an effective focus can be provided. Due to the Covid-19 Pandemic some changes have been made to the plan due to resource availability and providing assurance in other areas of the organisation where it was more of a priority, for example around the issuing of business grants. The following revisions to the plan were made in 2020/21:
- The Petty cash audit was brought forward from 2019/20
 - The RDP/ Housing company set up audit was brought forward from 2019/20
 - The Alderwood audit was carried out instead of the Financial assistance to organisations audit.
 - A review was carried out of faster payment following a payment to a fraudster.
 - Due to resource availability as an impact of additional work required due to the Covid-19 pandemic the Capital project audit was removed from the plan and the Legal system set up and FMS bank reconciliation audit has been deferred to the 2021/22 audit plan.
 - The Corporate Investigations Officers were due to carry out proactive anti-fraud work on the Housing tenancy/ allocation list and Procurement. However, due to carrying out pre and post assurance checks on the business grants issued as a result of the Covid-19 pandemic and other reactive referral work there was not the scope within 2020/21 to carry out this proactive work.
- 4.3 Work has been planned and performed in order to obtain sufficient evidence to enable a reasonable assurance to be given that the internal control environment is operating effectively. However, due to issues with delivery of audits from the contract auditors and the lack of engagement and availability of resources within services, insufficient audits have been completed to enable an overall opinion to be given. Whilst it has not been possible to provide an assurance level within the audit opinion above, audit work that has been completed and other governance work carried out with the involvement of audit during the year,

it should be noted that this is limited due to the lack of sufficient evidence across the organisation in order to enable a full opinion to be provided.

4.4 The internal control environment comprises the Council's policies, procedures and operational systems and processes in place to:

- Establish and monitor the achievement of the Council's objectives
- Facilitate policy and decision making
- Ensure the economical, effective and efficient use of resources
- Ensure compliance with established policies, procedures, laws and regulations
- Safeguard the Council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.

4.5 The pie chart below shows the revised internal audit coverage for 2020/21 based on the substantially completed and finalised audits.



4.6 Specific IT network security audits are not carried out as reliance on IT assurance is taken from the annual Public Services Network (PSN) certificate. PSN outlines the minimum Information Assurance standards expected of organisations connected to the Public Services Network (PSN) and carries out an assessment against these standards. Areas covered within this review are:

- Operational security – Appropriate policies, processes and procedures in place
- Authentication and access control – Appropriate access levels for users' needs
- Boundary protection and interfaces – Firewall and network parameter security

- Protecting data at rest and in transit – Encryption and data access security
- User and Administrator separation of data – Access controls
- Users – Pre-employment checks for users with administrative privileges
- Testing your security – Carry out regular IT health checks including penetration testing

4.7 The Council has achieved its PSN compliance until October 2021.

4.8 The view of External Audit is also taken into account. Any areas which are highlighted within their annual report will be considered when developing the audit plan.

4.9 The corporate risk register is reviewed to place some assurance that appropriate mitigation has been put in place against the strategic and operational risks identified (but these are not supported by any audit assurance).

Output

4.10 In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily and an opinion on the adequacy of controls is provided to management as part of the audit report.

4.11 All final audit reports include an action plan which identifies responsible officers, and target dates, to address any control issues identified. Implementation of action plans resets with management.

4.12 High risk control issues identified and/or Limited overall assurances are reviewed during subsequent audits or as part of a specific follow up.

4.13 Any significant weaknesses identified are put forward for consideration when preparing the Council's Annual Governance Statement.

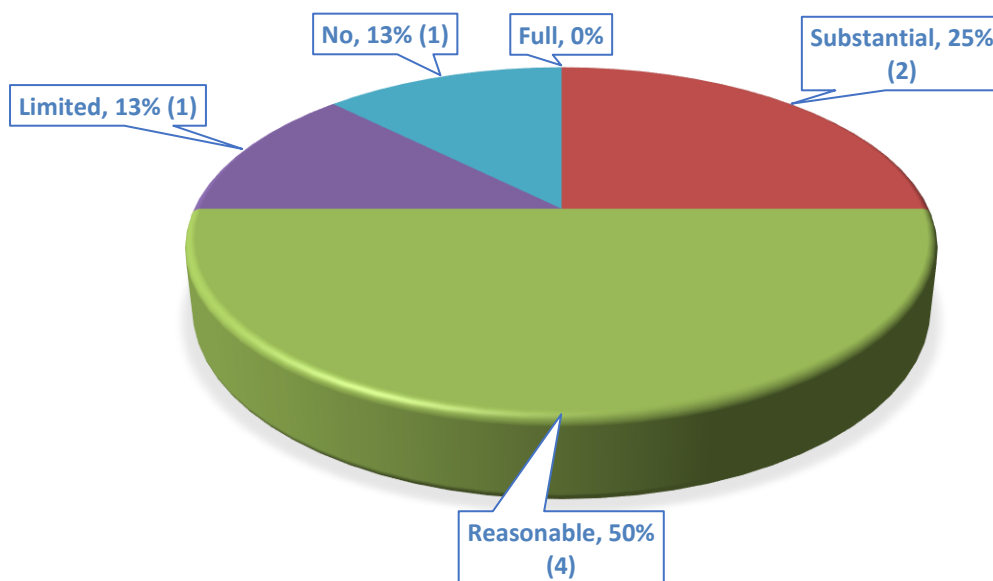
4.14 The revised 2020/21 internal audit plan has not been fully delivered. Work has only been substantially complete for 8 out of the 14 audits originally planned for enabling an overall opinion to be provided.

4.15 The above exceptions have impacted on the overall audit opinion that can be provided. Therefore, only a reduced level of assurance can be provided for the audit opinion, which is based on the work completed to date and the audit managers understanding of the governance, risk management and control arrangements based on involved with these areas throughout the year.

4.16 Most of Internal Audit's assurance work results in the issue of an opinion on the controls and procedures in place, categorised as follows:

Full	A comprehensive system of internal controls is in place designed to achieve the system/function/process objectives. These controls are operating effectively and are being consistently applied.
Substantial	Key controls designed to achieve the system/function/process objectives, are in place. There are opportunities to enhance/strengthen these controls.
Reasonable	Basic controls designed to achieve the system/function/process objectives, are in place. Improvements are required if key controls are to be established.
Limited	Minimal controls designed to achieve the system/function/process objectives, are in place. Significant improvements are required if key controls are to be established.
No assurance	No controls that achieve the system/function/process objectives, are in place.

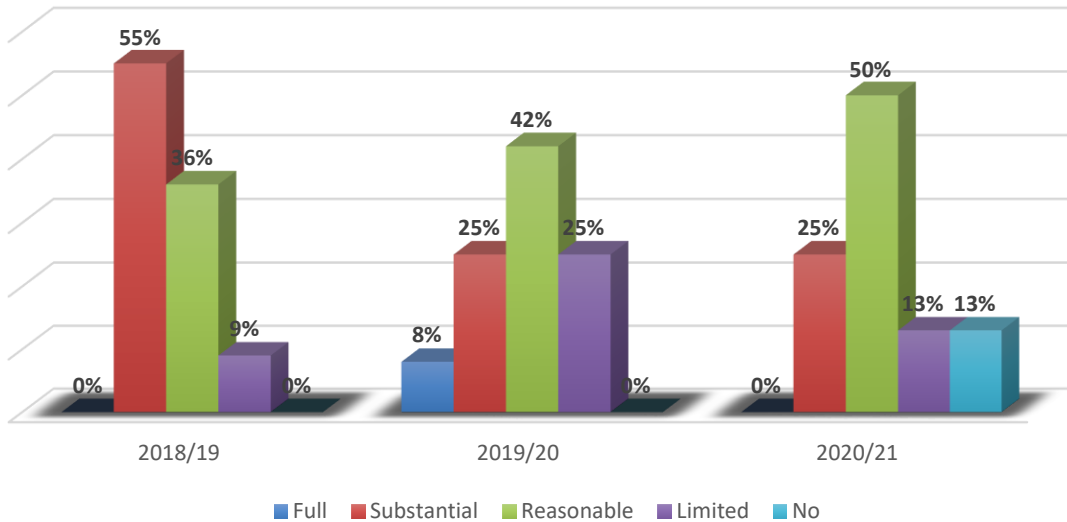
4.17 Analysis of the opinion-based assurance work shows the following distribution of opinions issued during 2020/21. Based on this, I can conclude that a reasonable level of internal control is in operation in the Council. See also the audit update reports, which provide further detail on the assurances provided for each report.



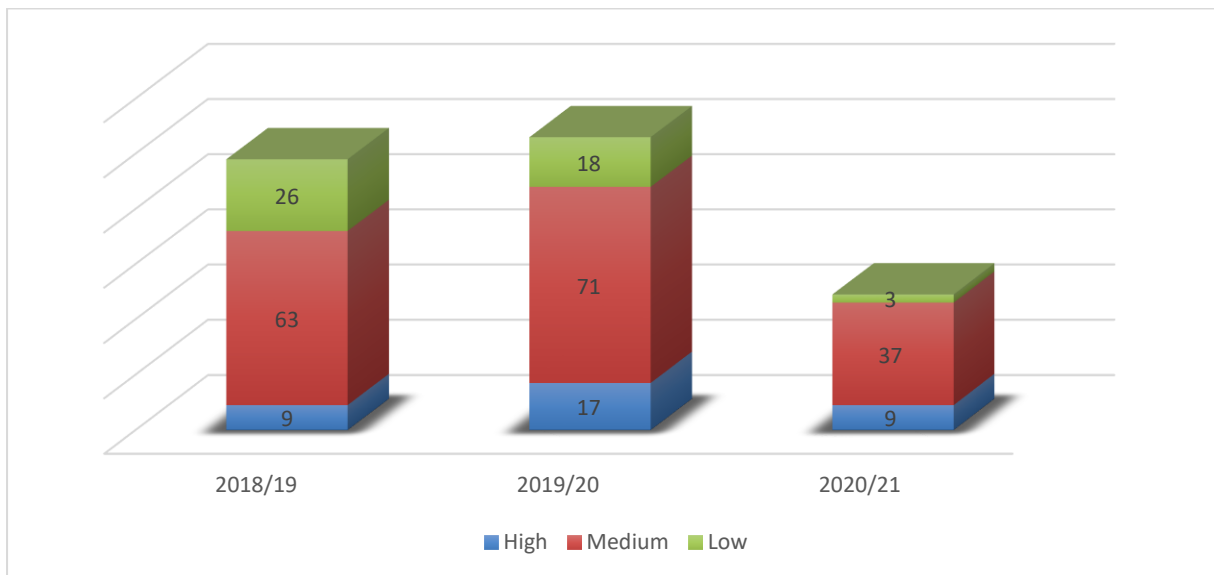
4.18 The trend in the audit opinions over the past few years is illustrated in the graph below. This shows that, in percentage terms:

- Substantial assurances have remained the same from 2019/20.
- Limited assurance has decreased from 2019/20.
- Reasonable assurance has slightly increased across all 3 years.
- No assurance has been given for the first time for one audit.

4.19 Internal Audit's opinion remains that the overall level of internal control in the Council is reasonable.



4.20 The bar chart below shows the number and level of priority of recommendations made in comparison to previous years. Although, the overall number of audits completed is lower in 2020/21 than previous years majority of the recommendations made remain as medium with a small number of high.



4.21 A summary of audit work across the organisation is shown within the table in Appendix 1

5. PERFORMANCE INDICATORS

- 5.1 The following performance measures were put in place within 2020/21:
- % of draft reports received by the audit manager within 6 weeks of the initial meeting with the auditee
 - % of draft reports finalised with the auditee within 21 days following the Audit Managers review.

- A target of 90% of the audit plan programme to be completed/ at draft report stage, by the end of the financial year.
- 5.2 The outcome of the performance measures for 2020/21 are detailed below:
- 37.5% of the draft reports were received by the audit manager within 6 weeks.
 - 62.5% of draft reports were finalised with the auditee within 21 days.
 - 57% of the audit plan programme was completed by the end of the financial year.

Majority of the audits were not within the timescales for the performance measures due to Covid-19, resource availability (services and contractors) and service priority.

6. ANTI-FRAUD AND CORRUPTION

- 6.1 The Council is committed to the highest possible standards of openness, probity and accountability. A fraudulent or corrupt act can impact on public confidence in the Council and damage both its reputation and image. Counter-fraud arrangements assist in the protection of public funds and accountability.
- 6.2 Policies and strategies are in place setting out the Council's approach and commitment to the prevention and detection of fraud or corruption, including an Anti-fraud, bribery and corruption policy and a Money-laundering policy.

National Fraud Initiative (NFI)

- 6.3 The Council continues to conform to the requirements of the National Fraud Initiative (NFI). An annual SPD NFI exercise is carried out to match data from the Council tax system and the Electoral roll. The Council submitted the required data sets for this in February 2020, with feedback on potential matches being received instantly.
- 6.4 Due to the better information sharing between electoral registration and Council Tax the previous year's Council Tax savings had continued to decrease. As a result, majority of the matches were already known and had been dealt with meaning it was not effective use of the Corporate Investigation Officer resource. Therefore, it was agreed that for the 2020 matches the Council Tax team would review the matches and any requiring further investigation would be past to the CIO.
- 6.5 Due to the impact of the Covid-19 pandemic on the Council Tax/NNDR team the SPD matches were not fully reviewed by the time that the new matches for 2021 were made available. Therefore, work will not continue on the 2020 matches, as this data has now been superseded with the 2021 data.
- 6.6 Furthermore, a biennial NFI exercise is carried out which is classed as a 'full match'. This reviews areas such as, Parking permits, Payroll, Licenses etc. The Council submitted required data sets for the full match in October 2020

receiving feedback on potential matches in February 2021. Work will be carried out in 2021/22 by the CIO to review identified matches.

Proactive anti-fraud work

- 6.7 Pro-active fraud work was carried out on 196 cases to assist with issuing of Covid-19 business grants. This involved reviewing applications put forward by the business rates team to determine if the business was entitled to the grant and ensure paid to the correct business accounts.
- 6.8 Furthermore, 965 cases had account verification checks carried out by NFI with 65 cases further reviewed by the CIO, as a result of the outcomes of the NFI checks. A significant number of checks have been carried out by the CIO on the discretionary business grants to ensure that they have been paid to eligible businesses in line with the pre and post payment assurance requirements.
- 6.9 Monthly post assurance checks have also been carried out on 10% of the benefit test and trace payments made.

Irregularities

- 6.10 The Corporate Investigation Officers have assessed and where appropriate, advised, investigated or supported the investigation of any allegations of fraud, corruption or improper practice. Due to the Covid-19 restrictions and the need to provide pre and post payment assurance on the payment of Business Rates Grants, no substantive investigations were carried out in 2020/21.

7. INTERNAL AUDIT OPINION

- 7.1 The Audit Manager is responsible for the delivery of an annual audit opinion that can be used by the Council to inform its annual governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 7.2 In giving this opinion, assurance can never be absolute, as audit cannot review every decision and transaction of the Council. Therefore, only a reasonable assurance can be provided that there are no major weaknesses in the Council's processes reviewed and any reliance placed on other sources of assurance.
- 7.3 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 for example PSN certification;
 - The counter-fraud work carried out by the Corporate Investigations Team;
 - the quality and performance of the internal audit service and the extent of compliance with the Standards

- NFI data match checks
- Participation on the corporate governance group.
- Mitigations in place to minimise the risks identified within the Corporate risk register.

Opinion of the Audit Manager

Due to issues with a lack of audit resources and input from relevant services to deliver and complete audits, an insufficient number of audits have been undertaken to allow me to form a reasonable overall conclusion on the adequacy and effectiveness of Rushmoor Borough Council's internal control environment.

An overall opinion cannot be provided due to insufficient assurance work being carried out in part due to the impact from Covid-19.

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

7.4 Whilst it has not been possible to provide an assurance level within the audit opinion above, audit work that has been completed and other governance work carried out with the involvement of audit during the year.

8. PSIAS

8.1 The Public Sector Internal Auditing Standards (PSIAS) and the Local Government Application Note (LGAN), together came into effect from April 2013 and supersedes the 2006 CIPFA Code of Practice for Internal Audit in Local Government.

8.2 A self-assessment against the standards for 20/21 has been carried out by the Audit Manager. There are 11 overall standards, which are broken-down into 336 fundamental principles, against which to measure compliance. A summary of the findings is shown in the table below.

	Compliant			
	Yes	Partial	No	N/A
2020/21	299 (94.62%)	12 (3.80%)	5 (1.58%)	20

8.3 A detailed breakdown of the areas of compliance and non-compliance is shown within Appendix 2.

8.4 The key areas of non-compliance are due to not having:

- An external assessment carried out on the audit activity – *This is due to be carried out every 5 years. However, the cost and resource time required to have this assessment carried out is not seen of benefit at this moment but will be re-evaluated next year.*

- Up to date policies and procedures – *Due to other higher priority work/ Covid-19 these were not updated within 20/21 but have been included as an action within the improvement plan within Appendix 3.*
- Regular meetings with External audit – *Regular meetings have not been carried out with External audit but has been included as an action point within the 2020/21 improvement plan in Appendix 3.*
- An assurance map in place – *a recent assurance map has not been developed to identify all the areas of assurance which can be/are obtained including 3rd parties.*

9. QUALITY ASSURANCE AND IMPROVEMENT PLAN (QAIP)

- 9.1 The QAIP for 2021/22 will look to address some of the non-compliance and partial compliance identified within the PSIAS self-assessment, over the next financial year, taking in to account the resources available. The full QAIP for 2021/22 is set out in Appendix 3.

	Assurance reviews			
	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
ELT/Corporate wide			RDP/Housing company set up	
Finance			Petty cash	
ICT, Facilities & Project Services		Application Patch Management	External tenants	
HR				Payroll
ACE				
Democracy, Strategy & Partnerships	Alderwood Leisure Centre			
Operations			Faster payment	Car Park PCNs
Legal				
Regeneration & Property				
Economy, Planning & Strategic Housing				

	Advisory Work	Counter-Fraud
	ELT/Corporate wide	Corporate Governance Group
Finance		Revenues & Benefits
ICT, Facilities & Project Services		
HR		
Customer Experience		
Democracy, Strategy & Partnerships		
Operations		Fly tipping
Legal	RIPA policy	
Regeneration & Property		
Economy, Planning & Strategic Housing		

PSIAS – Self-assessment

Aspect of Standards	No. of requirements in the standards	Standards not applicable at RBC	No. of applicable standards assessed	Compliance assessment		
				Yes	Partial	No
Definition of internal auditing	3		3	3		
Code of ethics	13		13	13		
<i>Attribute Standards</i>						
Purpose, authority & responsibility	23		23	23		
Independence & objectivity	30	5	25	22	2	1
Proficiency & due professional care	21		21	21		
Quality assurance & improvement programme	27	6	21	18	2	1
<i>Performance Standards</i>						
Managing the internal audit activity	47		47	41	4	2
Nature of work	31		31	28	3	
Engagement planning	58	3	55	55		
Performing the engagement	22		22	22		
Communicating results	55	6	49	47	1	1
Monitoring progress	4		4	4		
Communicating the acceptance of risk	2		2	2		
Totals	336	20	316	299	12	5
				94.62%	3.80%	1.58%

Quality Assurance and Improvement Plan (QAIP) 2021/22

Non-conformance	Action	Comments
Do not have in place up to date policies and procedures for the internal audit activity	The internal audit policies and procedures will be updated.	This was due to be carried out within 2020/21. However, due to other higher priority work and Covid-19 this was not carried out.
Do not regularly meet with external audit.	Communication between internal and external audit should be improved.	The Redmond review suggested that Internal and external audit should engage more effectively.
Have not carried out assurance mapping for the Council this year.	An assurance map should be set out.	Assurance mapping should be carried out to clearly show where the committee can gain assurance on the risks facing the Council.