

26 MAY 2022

INTERNAL AUDIT – AUDIT OPINION

Summary:

This report sets out the Internal Audit coverage, findings and performance for 2021/22 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 (GRC) 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 GRC assessed in 2021/22 through opinion-based audit assurance work;
- III. Note the Audit Opinion given for 2021/22;
- IV. Endorse the Performance Indicators for the Internal Audit activity for 2022/23;
- V. Note the self-assessment exercise against the PSIAS and the areas of non-conformance with them in Appendix 2; and
- VI. Endorse the QAIP for 2021/22 shown in Appendix 3, which details areas of improvement to reduce the areas where the Audit activity does not conform to the PSIAS.

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 GRC.
- 1.2 The report in Appendix A sets out the Internal Audit work carried out within 2021/22 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 PSIAS and communicate this to the Corporate Governance, Audit and Standards (CGAS) Committee. The report details the outcome of the self-assessment carried out.

- 1.4 The Internal Audit Plan for 2021/22 was approved by this Committee on 29 March 2021 (AUD21/02). Due to the Covid -19 pandemic and the departure of the Audit Manager for maternity, which was not covered for five months, changes have had to be made to the Audit Plan during the Plan year. Subsequent changes to the Audit Plan have been communicated to CGAS within the regular Audit Update reports.

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 2021/22, 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 the Public Sector Network (PSN) certification;
- The quality and performance of the Internal Audit service and the extent of compliance with the PSIAS;
- Participation on the Corporate Governance Group; and
- Mitigations in place to minimise the risks identified within the Corporate Risk Register.

3. Conclusion

- 3.1 Sufficient assurance work has been completed within the year to enable an overall audit opinion of **Reasonable** to be provided on Rushmoor Borough Council's GRC framework.
- 3.2 Where weaknesses have been identified through Internal Audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.
- 3.3 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. Previously, this was not done on the basis of cost/benefit due to the size of the function. However, this will be reviewed this year.*
 - Structure of Internal Audit function – *The position of Internal Audit in the Council should be reviewed to assist with the improvement of its effectiveness in assisting senior management with the GRC framework. A strategy paper has been produced on the subject.*
 - Up to date Audit policies and procedures – *Due to other higher priority work/ Covid-19 these were not updated within 2020/21. These will be reviewed in 2022/23.*

- Regular meetings with External Audit – *Regular meetings have not been carried out with External Audit. These will be reviewed in 2022/23.*
- 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. This will be addressed in 2022/23.*

3.5 All items have been included as actions within the QAIP in Appendix 3.

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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 2021/22

1. Introduction

- 1.1 The Internal Audit Plan for 2021/22 was presented to and approved by the CGAS Committee on 29 March 2021. The following report and appendices set out:
- The Internal Audit coverage, findings and performance for 2021/22;
 - The Audit Manager's opinion on the overall adequacy and effectiveness of the Council's GRC framework, which can be used to inform the Council's Annual Governance Statement (AGS);
 - The result of the PSIAS self-assessment for 2021/22;
 - The performance against the agreed QAIP for 2021/22; and
 - The QAIP for the Internal Audit service for 2022/23.

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 PSIAS, as an:

'Independent, objective assurance and consulting activity designed to add value and improve an organisations 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, processes and controls are designed and working, with consulting activities available to help to improve those systems, processes and controls, 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 GRC framework in operation and to stimulate improvement.

4. Internal Audit Coverage and Output

Coverage

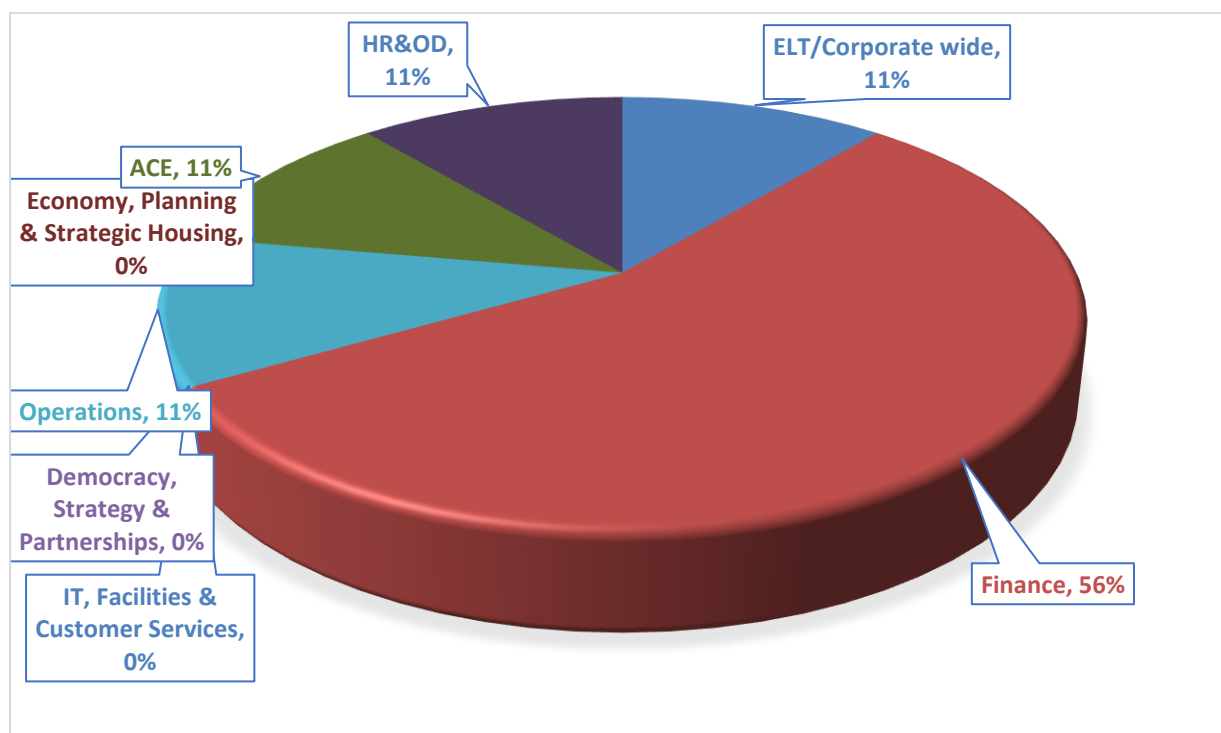
- 4.1 The annual Internal Audit Plan was prepared to take account of Internal Audit's own assessment of risk and materiality in addition to consultation with Senior Management to ensure it aligned to the Council Plan and key risks facing the organisation.
- 4.2 The Audit Plan has remained fluid throughout the year to ensure an effective focus can be provided. Due to the Covid-19 Pandemic and the lack of an Audit Manager for the first four months of the Plan Year, some changes have been made due to resource availability and providing assurance in other areas of the organisation. The following revisions to the plan were made in 2021/22:
- The Benefits audit was changed from a "light" to full review, as this had not been audited for three years;
 - The National Non-Domestic Rates (NNDR) and Council Tax Recovery audit was changed in scope due to timing, as the team responsible for Council Tax were engaged with the new financial year billing. Hence, the scope changed to a full review of NNDR;
 - The CCTV audit was postponed to 2022/23 as the control room was in progress of being transferred to Runnymede Borough Council;
 - Financial Grants to Organisations was postponed to 2022/23 to facilitate Internal Audit's involvement in the Union Yard Regeneration Project, which is a significant financial risk for the Council;
 - The Crematorium audit was postponed to 2022/23 as a feasibility study on a refurbishment or a rebuild was undertaken;
 - The Legal system – set up audit was cancelled following discussions with the Corporate Legal Manager and the Head of IT as to the value of the audit compared to other audits;
 - The Windows 10 / Remote Working audit was not done. However, it has been covered partially within the PSN Certification and remote working will be covered as part of the Cyber Security audit in 2022/23;
 - The post-implementation review of the new Property system, Concerto, was postponed to 2022/23, as the project had not completed; and
 - The Procurement audit was postponed to 2022/23, as the function was moved out of Finance to the Assistant Chief Executive, who engaged Portsmouth City Council to provide support temporarily. Now that the engagement has been extended for another year, the audit will go ahead.
- 4.3 Work has been planned in order to obtain sufficient evidence to enable a reasonable assurance to be given that the GRC environment is operating effectively. However, due to the lack of an Internal Audit Manager for the first four months of the Plan year, coupled with issues with delivery of audits from the contract auditors and the lack of engagement and availability of resources

within services in that period, the number of scheduled audits has been impacted.

4.4 The GRC 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; and
- 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 2021/22 based on the completed and finalised audits.



4.6 Specific IT network security audits are not carried out currently, as reliance on IT assurance is taken from the annual Public Services Network (PSN) Certification. PSN outlines the minimum Information Assurance standards expected of organisations connected to the 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; and
 - Testing your security – Carry out regular IT health checks.
- 4.7 The Council achieved its PSN compliance in April 2022 until April 2023. Whilst the weaknesses identified in the IT Health Check, conducted by a third party in February 2022, were rectified to obtain compliance, there is a number of remediations to be done still.
- 4.8 The view of External Audit is also considered. However, as the audit of the 2021/22 accounts has been delayed, this could not be done.
- 4.9 The Council Plan and the Corporate Risk Register are reviewed to place some assurance that appropriate mitigation has been put in place against the strategic and operational risks identified.

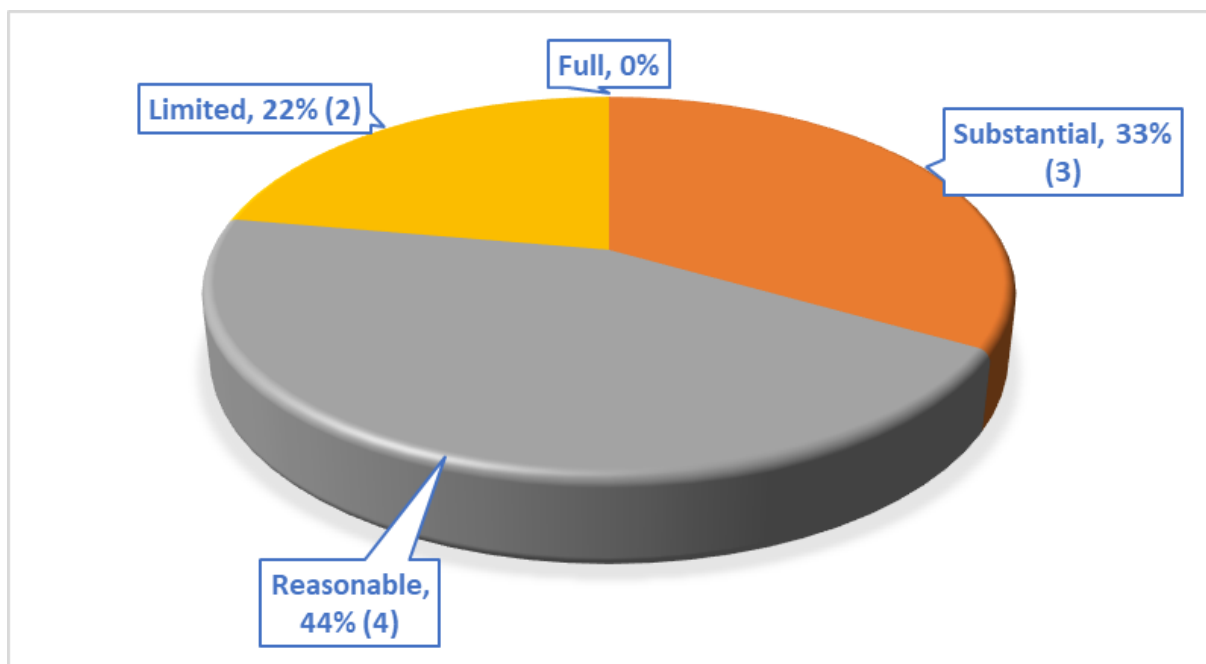
Output

- 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 rests with management.
- 4.12 High risk control issues identified are followed up on a regular basis and “Limited” overall assurance reports 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 AGS.
- 4.14 The revised 2021/22 Internal Audit Plan has not been fully delivered. Work has only been substantially completed for 10 out of the 11 audits planned to enable an overall opinion to be provided.
- 4.15 However, as the audits conducted covered financial systems and some cross-service controls, a reasonable 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 GRC arrangements, based on involvement 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.
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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.

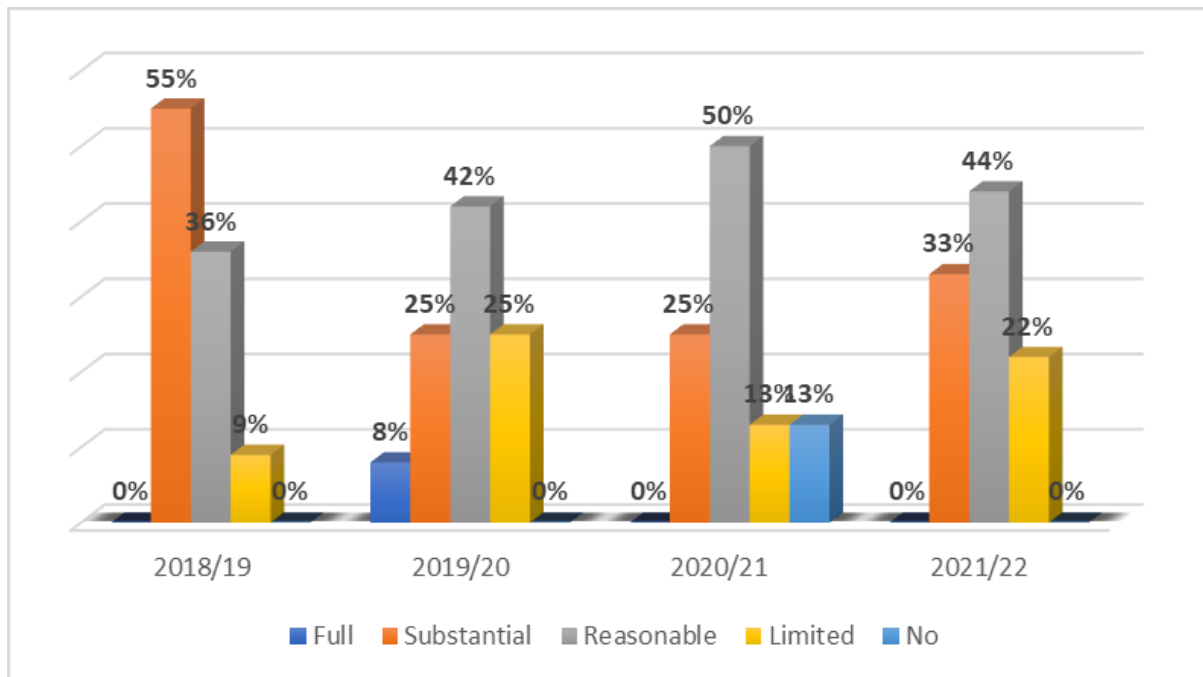
4.17 Analysis of the opinion-based assurance work shows the following distribution of opinions issued during 2021/22. Based on this, the conclusion is that a reasonable level of internal control is in operation in the Council. See also the audit update reports, which provide further detail on the assurances provided for each report.



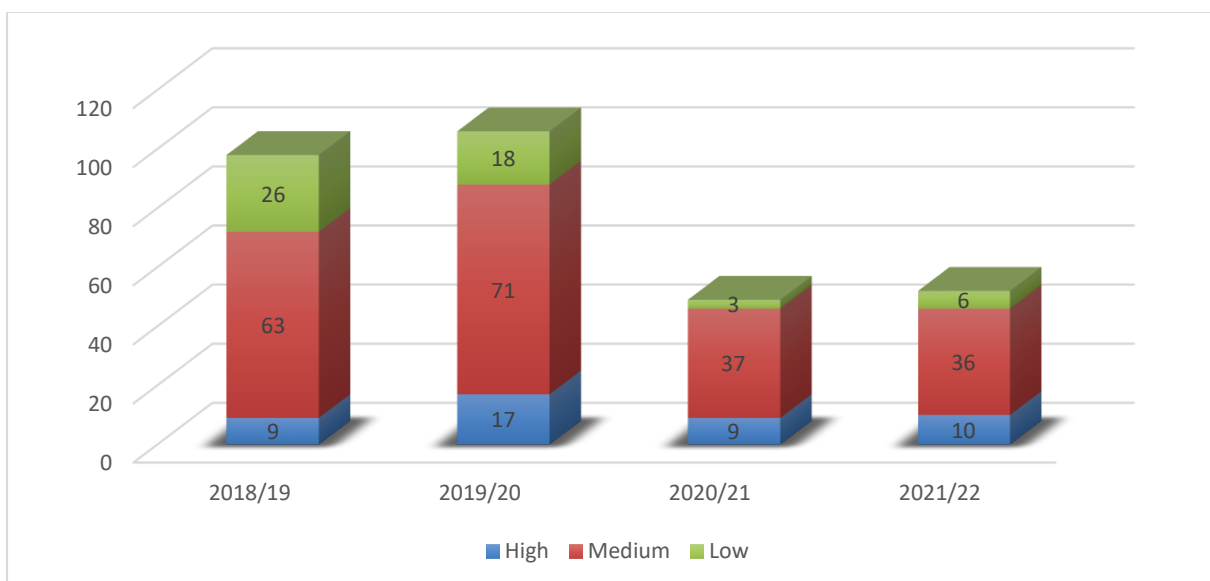
4.18 The trend in the audit opinions over the past few years is illustrated in the graph below. This shows that, in percentage terms:

- Full assurance was given once in 2019/20, which does not affect the trend;
- Substantial assurances have averaged a third of all opinions;
- Reasonable assurance has slightly increased across all years;
- Limited assurances have stayed roughly the same; and
- No assurance was given for the first time for one audit in 2020/21.

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 still low in 2021/22, the 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 2021/22:
- % 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; and
 - 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 2021/22 are detailed below:
- 29% of the draft reports were received by the audit manager within 6 weeks;
 - 86% of draft reports were finalised with the auditee within 21 days; and
 - 82% 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 an anti-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 2021, with feedback on potential matches being received instantly.
- 6.4 The data sets were analysed in September 2021 and, of the 647 cases processed, 44 were identified as potential frauds with a total recovery of £19,770.

Proactive anti-fraud work

- 6.5 No new anti-fraud work has been done in respect of Covid-19 Business Grants since being reported for 2020/21. However, an audit of Covid-19 Business Grants is scheduled for 2022/23.

Irregularities

- 6.6 The Corporate Investigation Officers have assessed and where appropriate, advised, investigated or supported the investigation of any allegations of fraud, corruption or improper practice. Analysis of the types of investigation and the number undertaken in 2021/22 are detailed in the table below. *(The below figures do not detail any work carried forward from 2020/21)*

Area	No. of cases
Fly tipping	16
Revenue & Benefits	62
Other	17
Total	95

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 AGS. The opinion concludes on the overall adequacy and effectiveness of the Council's framework of GRC.
- 7.2 In giving this opinion, assurance can never be absolute, as Internal 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, 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;
 - NFI data match checks;
 - Participation on relevant governance groups across the Council including, the Corporate Governance Group, Information Governance Group and Heads of Service; and
 - Mitigations in place to minimise the risks identified within the Corporate Risk Register.

Opinion of the Audit Manager

I am satisfied that sufficient assurance work has been undertaken to allow me to form a reasonable conclusion on the adequacy and effectiveness of Rushmoor Borough Council's GRC environment.

In my professional opinion, Rushmoor Borough Council's framework of GRC is **reasonable/adequate** and assurance work undertaken 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.

It should be noted that these issues have already been recognised by Managers and they are working to address them.

8. PSIAS

- 8.1 The 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 2021/22 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
2021/22	297 (94.9%)	11 (3.5%)	5 (1.6%)	23

- 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. Previously, this was not done on the basis of cost/benefit due to the size of the function. However, this will be reviewed this year.*
 - Structure of Internal Audit function – *The position of Internal Audit in the Council should be reviewed to assist with the improvement of its effectiveness in assisting senior management with the GRC framework. A strategy paper has been produced on the subject.*
 - Up to date Audit policies and procedures – *Due to other higher priority work/ Covid-19 these were not updated within 2020/21. These will be reviewed in 2022/23.*

- Regular meetings with External Audit – *Regular meetings have not been carried out with External Audit. These will be reviewed in 2022/23.*
- 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. This will be addressed in 2022/23.*

8.5 All items have been included as actions within the QAIP in Appendix 3.

9. Quality Assurance and Improvement Plan (QAIP)

9.1 The QAIP for 2022/23 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 2022/23 is set out in Appendix 3.

Assurance reviews				
	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
ELT/Corporate wide			Capital Project (Voyager House)	
Finance		Insurance	NNDR and Sales Ledger	FMS & Bank Recs and Benefits
IT, Facilities & Customer Services				
HR&OD		Contractors & IR35		
ACE			Corporate Risk Management	
Democracy, Strategy & Partnerships				
Operations				Homelessness, B&B and Temp Accom
Legal				
Regeneration & Property				
Economy, Planning & Strategic Housing				

	Advisory Work	Counter-Fraud
ELT/Corporate wide		NFI
Finance		Revenues & Benefits
IT, Facilities & Customer Services		
HR&OD		
ACE		
Democracy, Strategy & Partnerships		
Operations		Fly tipping
Legal		
Regeneration & Property	Union Yard	
Economy, Planning & Strategic Housing		Planning & 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	20	1	
Quality assurance & improvement programme	27	6	21	17	3	1
<i>Performance Standards</i>						
Managing the internal audit activity	47	1	46	42	2	2
Nature of work	31		31	28	3	
Engagement planning	58	5	53	53		
Performing the engagement	22		22	22		
Communicating results	55	6	49	48		1
Monitoring progress	4		4	4		
Communicating the acceptance of risk	2		2	2		
Totals	336	23	313	297	11	5
				94.9%	3.5%	1.6%

Quality Assurance and Improvement Plan (QAIP) 2022/23

Non-conformance	Action	Comments
Have not carried out an external assessment on the Audit activity every 5 years.	Cost/benefit analysis will be done.	Previously, this was deemed not beneficial from a cost and time perspective.
The CAE is not sufficiently senior to be able to provide credibly constructive challenge to senior management.	The structure of Internal Audit will be reviewed to assist senior management with the GRC framework.	This has been highlighted in the Internal Audit Strategy Paper.
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. This will be reviewed in 2022/23.
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. This will be reviewed in 2022/23.
Have not carried out assurance mapping for the Council this year.	An assurance map should be set out.	Assurance mapping will be carried out to clearly show where the committee can gain assurance on the risks facing the Council.