

## AUDIT OPINION

2023/24

### 1. Role of Internal Audit

- 1.1 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.'*

- 1.2 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'*.

- 1.3 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.

### 2. Purpose of the Audit Opinion

- 2.1 The purpose of an internal audit opinion is to provide assurance that internal controls in place are adequate to mitigate risks, governance and risk management processes are effective and efficient to assist the Council in achieving its objectives.

### 3. Audit Coverage to support the Opinion

- 3.1 The following areas have assisted with the formulation of the audit opinion:
- The audit plan, which was developed to enable a spread of audits to across the Council to ensure an appropriate assessment of the internal control environment.
  - Key Financial audits carried out over the last 3 years and the movement of the assurance from previous reviews.
  - The Council's achievement of PSN certification
  - Audit recommendations accepted and implemented by Management
  - External reviews carried out
  - Attendance at Corporate Governance Group and Information Governance Group
  - Risk Registers and the reporting of risks
  - Follow ups carried out where limited assurances have been given within the previous financial year.

## 4. Audit Opinion





- 4.1 In accordance with the Accounts and Audit (England) Regulations 2015, the Audit Manager is required to report on an annual basis, the overall adequacy and effectiveness of Rushmoor Borough Council's framework of governance, risk management and control.
- 4.2 In prior years an overall audit opinion has been provided across all three areas of the framework. To provide further clarity and in line with recommendations made by CIPFA in their review of Internal Audit, separate opinions will be provided for the internal control environment, risk management and governance arrangements.
- 4.3 Assurance levels which could be given are set out below:

Assurance Level	Definition
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.

- 4.4 In giving these opinions, 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.

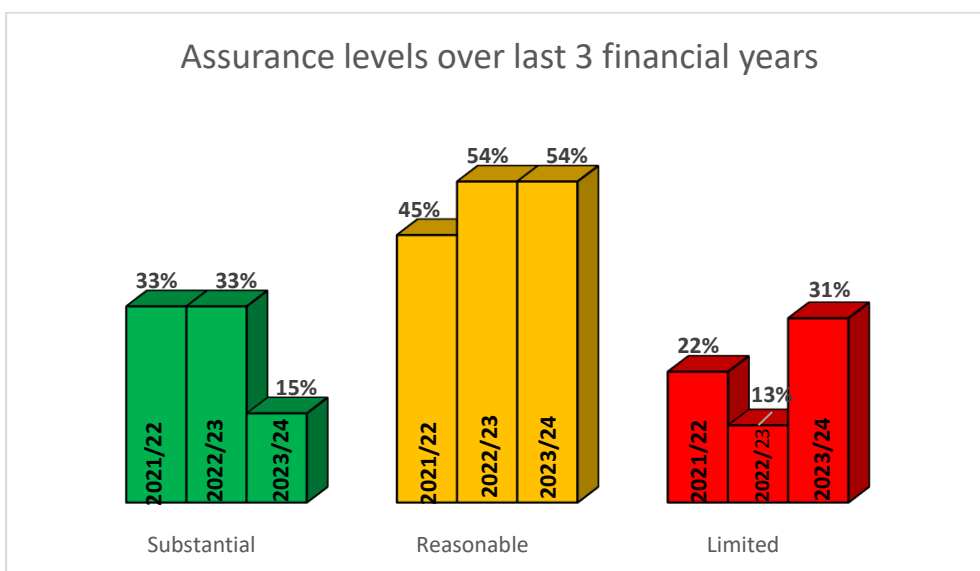
### **Internal Control Environment**

- 4.5 Internal audit reviews key financial systems on a 3-year rolling basis. The below table shows the level of assurance provided for each of these systems across the 3 years along with the direction of travel from the previous level of assurance provided.

Key financial system	Assurance level in the last 3 years	Direction of travel from previous assurance provided
Purchase Ledger	Reasonable	
Payroll	Reasonable	
Council Tax	Reasonable	
Treasury Management	Substantial	

Cash receipting	Reasonable	↓
Benefits	Substantial	↔
FMS & Bank Reconciliation	Substantial	↑
NNDR	Reasonable	↓
Sales Ledger	Reasonable	↓

- 4.6 The above shows a downward trend in the assurance levels provided for key financial systems, with 56% decreasing from previous years reviews.
- 4.7 The audit plan for 2023/24 provided coverage from across the Council and provided 13 assurance levels in which have been included within the formation of the opinion on the internal control environment within the Council. (Appendix A details the audits completed/ substantially completed, and the assurance level provided) The graph below shows the percentage trend over the last 3 financial years for the assurance levels provided.



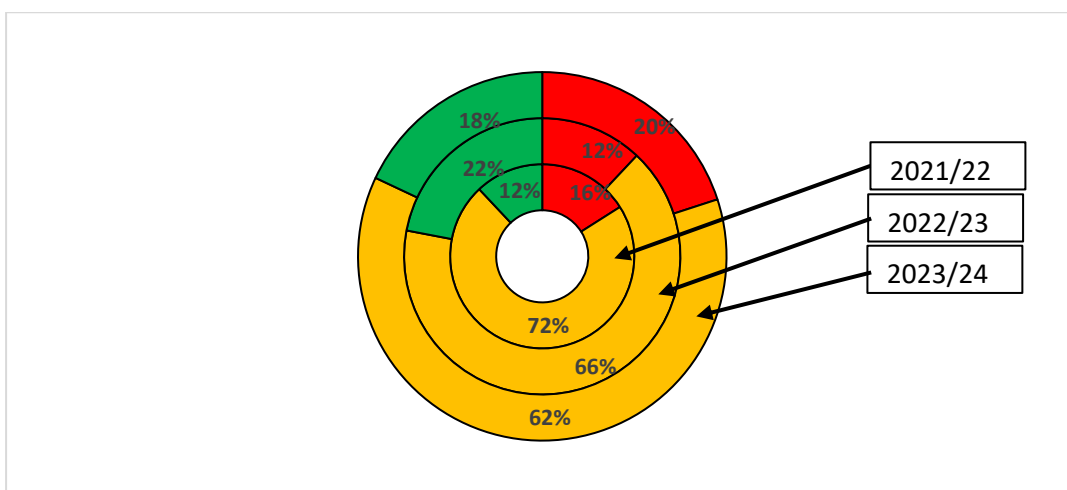
- 4.8 The above graph shows that this financial year there has been a decrease in the substantial assurance levels whilst the reasonable level has remained consistent. There has also been an increase in the limited assurance provided.
- 4.9 Specific follow up audits are carried out, the following financial year, where limited or no assurances have been given. As limited or no assurances are significant these areas should be given priority focus from senior management to close the gaps highlighted therefore assurances should improve.

Follow up audit	Follow up assurance level	Direction of travel
<b>2022/23</b>		
S106/ SANGS	Substantial	↑
Taxi Licensing – fee process	Substantial	↑
Application Patch Management	Reasonable	↑
Alderwood Leisure Centre*	Limited	↑

2023/24		
Estates Management & Commercial letting	Substantial	↑
Purchase Ledger	Reasonable	↑
Insurance	Limited	↔
Guest House	Limited	↔

\*Alderwood Leisure was in the process of being transferred back to the school and previously had been given No assurance.

- 4.10 The review of follow ups carried out this financial year shows a decrease in the improvement of areas which have previously been given a limited assurance. With 50% of the follow ups carried out not improving. Although it should be noted that these were within the Finance service specifically. Further work by the service has been carried out on the two areas and whilst a further follow up has not yet been carried out it is known that improvements have been made.
- 4.11 Recommendations are made for each audit carried out to improve the area under review. The recommendations are categorised as high, medium or low.
- 4.12 The graph below shows the trend over the last 3 financial years. This shows that the overall percentage of recommendations has increased for high, whilst the percentage of medium and low-level recommendations have reduced. Although overall the changes are not hugely disparate across the years.



- 4.13 The Council has achieved PSN certification. This reviews the Council's security network and provides recommendations for improvement. Assurance is taken from this assessment that the IT network controls in place are sufficient.
- 4.14 In addition assurance was taken from the external review of the Council's InTune device management, which was carried out as part of the PSN requirement.
- 4.15 In summary, based on the information set out above it would demonstrate that the Council's internal control environment has decreased from previous years. Whilst key financial systems have been given reasonable or substantial assurance across the 3-year cycle the overall trend is that the levels of assurance are decreasing. Overall, substantial assurances have reduced this financial year whilst the limited assurances have increased.

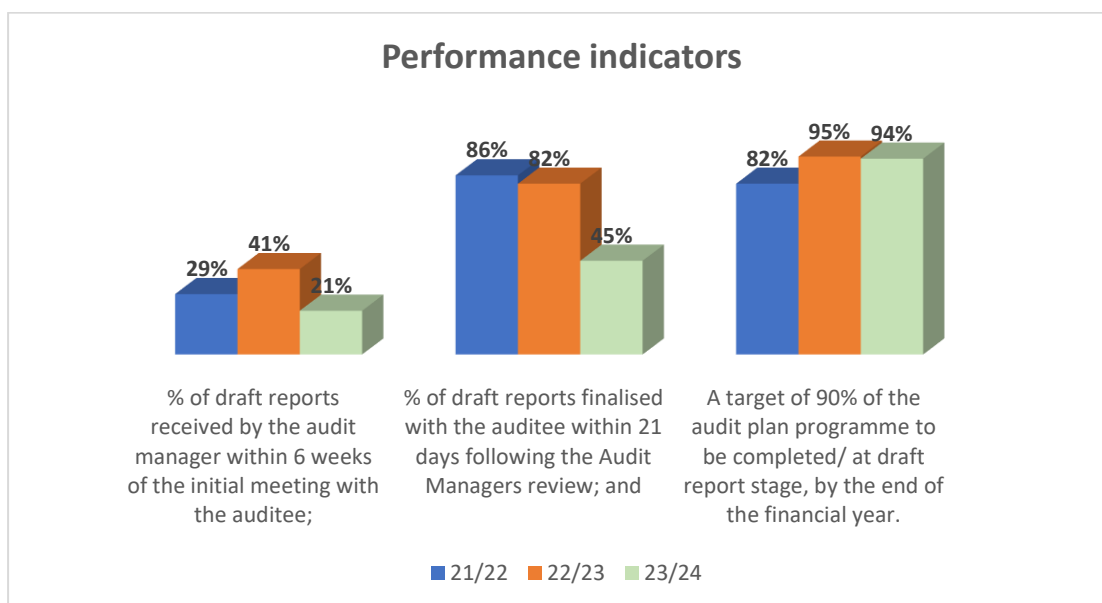
- 4.16 In addition to this, the follow ups carried out have not improved for ones within the Finance service, whilst other services have improved in the areas previously given limited assurance.
- 4.17 It is in the Audit Managers opinion that the internal control environment for Rushmoor Borough Council is **Reasonable**. Whilst a reasonable assurance has been provided it should be noted that this was on the lower level of this assurance bracket. Due to the increase in the number of limited assurances in the year, the downward trend of the assurances provided for key financial systems and the limited assurance level not changing for half of the follow up audits carried out this financial year. Improvements are required so that this downward trend does not continue.

### **Governance**

- 4.18 The Council currently has outstanding audit recommendations dating back to audits carried out in 2019/20, some of which are high risk areas. Confidence in Managers implementing the outstanding agreed recommendations has been impacted.
- 4.19 Senior Management were provided with a breakdown of the outstanding recommendations, risk levels and areas. Work is due to be carried out in order to take a view on these in a similar light to the external audit position.
- 4.20 Various lines of defence are in place to ensure that questions and oversight is carried out on various decisions made within the Council. The lines of defence are key to governance arrangements to ensure that processes are being followed and allow for informed decisions to be made.
- 4.21 Some audits carried out have demonstrated that the lines of defence set up are not working effectively to scrutinise options, risks and the overall potential impact (worse case/ best case) put forward. An example of this was demonstrated within the Meads audit where the financial modelling only changed the purchase price and not other factors, such as the level of borrowing or the interest rate, as stated within the main body of the Cabinet report. This was not evidenced as being picked up at the various levels of defence.
- 4.22 Audits carried out, identified that there is also inconsistency with information provided within Cabinet reports. With inconsistent information being provided for decision making this does not provide a basis for informed decisions to be made and does not demonstrate good governance. In addition to this, clarity is not set out in all Cabinet reports for what is being requested for approval which can cause misperceptions going forward. An example of this was the RHL report which only requested approval of the business case without specifically setting out what was to be approved. The business case put forward has various total amounts for borrowing and therefore it is unclear the exact amount that was agreed to lend, as the figures are not consistent within the business case.
- 4.23 The Interim S151 Officer stated that a self-assessment against the CIPFA FM code had been carried out however, records to evidence this have not been identified. The Council is currently not conforming with the CIPFA requirements. Actions to address this have been included within the Annual Governance Statement.
- 4.24 The following performance measures have been put in place for internal audit.
- % 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.

4.25 The graph below shows the performance over the last 3 financial years:



- 4.26 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.
- 4.27 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. These policies are currently being reviewed and updated to ensure they remain fit for purpose. A fraud risk assessment has been carried out to identify the likelihood of fraud occurring in various areas across the Council and ensure controls are in place to mitigate the risk.
- 4.28 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 register. The Council submitted the required data sets for this in December 2023, with feedback on potential matches being received instantly.
- 4.29 Details of irregularities identified within the year have been set out in Appendix B.
- 4.30 A self-assessment against the Public Sector Internal Auditing Standards (PSIAS) has been carried out. The Internal Audit section is fully compliant with the standards with some further enhancements set out within Appendix C.
- 4.31 Governance is the leadership of decision-making, culture, controls and accountability throughout the organisation. It is in the Audit Managers opinion that governance for Rushmoor Borough Council is **Reasonable**. Governance issues are addressed through the Governance group, and it has been acknowledged that work is to be done to improve the governance arrangements within the Council.

## **Risk Management**

- 4.32 The Council has in place Service Risk Registers and a Corporate Risk Register. Quarterly the overall changes are reported to the Corporate Management Team (CMT) for review and scrutiny. Following this the report is presented to Cabinet. CMT and Cabinet act as layers of defence to ensure that risks have been identified and where necessary actions taken to appropriately mitigate the risk.
- 4.33 There is insufficient evidence of scrutiny over the risks, follow up actions and mitigations suggested to minimise the risk from materialising.
- 4.34 Sufficient challenge is not undertaken at the different levels of defence to ensure that appropriate mitigations are in place, being monitored/ acted upon and an understanding of what any implications may be to the Council.
- 4.35 A risk appetite statement has not been defined and agreed with Members. Therefore, there is a lack of clarity against the level of risk that is deemed as acceptable by the Council. Therefore, risks are categorised based upon individual perceptions and not calibrated against the Council's adopted appetite.
- 4.36 It is in the Audit Managers opinion that risk management for Rushmoor Borough Council is **Reasonable**. Whilst a reasonable assurance has been provided the process requires improvement and focus to ensure that it is an effective management tool rather than just process driven.





**Appendix B****Anti-fraud and corruption***NFI*

The Council participates in the National Fraud Initiative (NFI). The annual Single Persons Discount (SPD) match provided 429 potential irregularities. These are currently being worked through by the Council Tax team with the property inspector verifying data, with 47% of the matches already reviewed. As of June 2024, 5 cases have been identified as potential frauds with a total recovery value of £1,125. A mailshot has recently been issued and work will continue over the coming months to complete this review.

*Irregularities*

A weakness was identified with two Direct Debits being set up on the Council's bank account without approval. The controls around this have been strengthened to ensure that only Direct Debits approved by the Council are set up on the bank account.

## Appendix C

**PSIAS – Self-assessment**

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.

A self-assessment against the standards for 2023/24 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.

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	7	23	23		
Proficiency & due professional care	21		21	21		
Quality assurance & improvement programme	27	3	24	24		
<i>Performance Standards</i>						
Managing the internal audit activity	47	1	46	46		
Nature of work	31		31	31		
Engagement planning	58	12	46	46		
Performing the engagement	22		22	22		
Communicating results	55	6	49	49		
Monitoring progress	4	1	3	3		
Communicating the acceptance of risk	2	2	0			
<b>Totals</b>	<b>336</b>	<b>32</b>	<b>304</b>	<b>304</b>		
				<b>100%</b>	<b>0%</b>	<b>0%</b>

An external assessment was carried out in 2023/24 and concluded,

*'The internal assessment has been reviewed by the Chief Internal Auditor at Basingstoke and Deane Borough Council who concluded the Internal Audit Service provided at Rushmoor Borough Council conforms with the PSIAS requirements.'*

Whilst the Council conforms to the PSIAS requirements some enhancements were identified as part of the external assessment and as a result have been included within the improvement plan below.

### **Quality Assurance and Improvement Plan (QAIP) 2024/25**

<b>Improvement points</b>
Consider seeking feedback from the chair of the Audit Committee as part of the CAE's performance appraisal.
Consideration should be given to documenting verbal stakeholder on audits carried out.
Consideration should be given to reviewing each of the corporate risks which will enhance the CAE annual opinion.
Consideration should be given to including the CAE's annual opinion within the Annual Governance Statement each year.