

INTERNAL AUDIT – AUDIT OPINION

Summary:

This report explains the legislative requirements and best practice guidance for reporting on the adequacy and effectiveness of the Council's framework of governance, risk management and control environment and presents the Audit Manager's opinion on the level of assurance.

Recommendations:

Members are recommended to note the contents of the report, including the audit opinion, note the self-assessment exercise against the Public Sector Internal Audit Standards and endorse the Quality and Assurance Improvement Plan.

1 Introduction

1.1 The Accounts and Audit Regulations (2015) require that:

“2(3) A relevant authority must ensure that it has a sound system of internal control which –

- a) Facilitates the effective exercise of its functions and the achievement of its aims and objectives.*
- b) Ensure that the financial and operational management of the authority is effective, and*
- c) Includes effective arrangements for the management of risk.*

2(5) A relevant authority 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 Furthermore, with effect from 1st April 2013 the Public Sector Internal Audit Standards (PSIAS) with the Local Government Application Note together supersede the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the UK.

1.3 In accordance with the above requirements, 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.

- 1.4 In order to fulfil this requirement, this report will cover:
- The internal audit coverage, findings and performance for 2016/17
 - An overall assurance opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control
 - The result of the Public Sector Internal Audit Standards (PSIAS) self-assessment
 - The Quality Assurance and Improvement Plan (QAIP) for the internal audit service for 2017/18.

2 Audit work for 16/17

- 2.1 The audit work for 16/17 was agreed at the Standards and Audit Committee on the 14/3/16. As of April 2016 the Standards and Audit Committee was discontinued. As a result, internal audit now report to the Licensing and General Purpose Committee. The audit plan was communicated to this committee at the meeting on the 27/6/16.
- 2.2 11 audits were originally planned to be completed within 16/17 in order to contribute to the audit assurance opinion.
- 2.3 Due to the following additional higher priority work being identified within 16/17
- External tenants
 - Public Sector Internal Audit Standards
 - Heating Payments
- the following audits were dropped from the plan in order to free up audit days:
- Heating Contract
 - Prospect Community Centre
 - Building Control
 - Petty cash/ Procurement cards
- 2.4 Therefore, only nine audits will be used to provide the audit opinion for 16/17. Although, at the time of completing this report, 1 audit was still to be completed and will be carried over into quarter 1 of 17/18.
- 2.5 8 follow-ups on recommendations made within previous audits were also carried out in 16/17 to ensure that recommendations are implemented in a timely manner.

Audited area	Completed	Underway	Outstanding
Parking Management System	5	2	-
IT audit - Express System	3	2	-
Financial Grants	11	1	-
HMRC compliance	4	1	2
Member/Mayoral allowances	4	1	-
Planning Enforcement	6	2	-
Network Security	3	2	3
Maintenance team	Unable to review recommendations until Confirm Connect is in place. A further follow-up to be scheduled.		

3 Audit Opinion

3.1 An assurance opinion on the adequacy of the system of internal control has been given to each audit assignment completed in 16/17. *See appendix A*

3.2 There are 5 categories of assurance that can be given:

- **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.

3.3 In assessing the level of assurance to be given for 16/17, the opinion is based on:

- All audits undertaken in 16/17
- The result of any follow up action carried out in 16/17, in respect of previous audit work

- Any significant recommendations not accepted by management and the potential consequences.

3.4 The Audit Manager is required in her capacity to provide an annual assurance opinion of the Council's adequacy and effectiveness of governance, risk management and control. However, it should be noted that the assurance can never be absolute, as audit cannot review every decision and transaction of the Council. Therefore, only a reasonable opinion can be provided that there are no major weaknesses in the Council's risk management, control and governance processes based on the systems audited and any reliance placed on other sources of assurance.

3.5

Opinion of the Audit Manager

I am satisfied that sufficient internal audit work has been undertaken to allow a reasonable opinion to be given on the adequacy and effectiveness of the Council's risk management, control and governance processes.

Using the information outlined within this report, in my professional opinion a **substantial assurance** on the effectiveness of the Council's risk management, control and governance for 16/17 can be given.

4 Public Sector Internal Audit Standards (PSIAS) Self-assessment

4.1 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.

4.2 As reported in AUD17/01 earlier on this agenda, the Audit Manager has carried out a self-assessment in 16/17 of the internal audit activity against the PSIAS checklist. 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
278 (83%)	30 (9%)	16 (5%)	12 (3%)

- 4.3 The quality assurance and improvement plan in section 5 will look to address some of the non-compliance and partial compliance over the next financial year, taking in to account the resources available.

5 Quality Assurance and Improvement Plan (QAIP)

- 5.1 External Assessment – the Hampshire Audit Managers’ group is carrying out an external assessment as a peer review exercise, the scope of which will be discussed and agreed with the Chief Financial Officer, with the results being reported to Committee.
- 5.2 The QAIP will be reported annually alongside the Audit Opinion in order to better inform Members as to progress against conformance with the Standards and the level of assurance on the adequacy and effectiveness of the Council’s control environment.
- 5.3 The Audit Opinion report structure will be reviewed to ensure inclusion of all relevant areas of the PSIAS. (The current report has already been updated to take account of progress to date).
- 5.4 Changes to the Audit Plan will be communicated to senior managers and the Committee for review and approval. This approach has already been agreed as part of AUD17/02 – The Audit Plan, at the Committee’s March meeting.
- 5.5 Future Audit Plans will detail the approach to using other sources of assurance, such as external audit, Department for Work and Pensions and National Fraud Initiative data matching exercises.
- 5.6 The full QAIP is set out in AUD17/01 - Public Sector Auditing Standards

6 The Annual Governance Statement

- 6.1 The Annual Governance Statement (AGS) is produced annually and published alongside the Council’s Statement of Accounts in September. It shows how the Council has complied with its Code of Corporate Governance and reports on the governance framework in place at Rushmoor.
- 6.2 The Auditor’s Opinion on the adequacy and effectiveness of the Council’s risk management, control and governance processes is required to be considered ahead of the AGS as it provides underlying assurances key to that statement.

- 6.3 The Auditor is required to consider whether there are any governance issues that should be raised within the AGS. It is recommended that the progress against the PSIAS self-assessment be reported within the AGS as well as the revised future reporting lines of the Audit team. The Audit team now report to the Chief Financial Officer while maintaining unfettered access across the organisation, in particular to the Chief Executive, the Leadership team and the chair of Licensing and General Purposes Committee.

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References: *Public Sector Internal Audit Standards (2013)*

<http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>

Appendix A

Audits	Assurance
Treasury Management	Substantial
Cash receipting	Substantial
Housing Benefits	Substantial
Council Tax Billing and Collection	Substantial
Council Tax and NNDR Recovery	Substantial
Parking Machine Income	Reasonable
External Tenants	Limited
Heating Payments	Limited
Capital Accounting – Activation Aldershot	Still in progress