

INTERNAL AUDIT – AUDIT OPINION

Summary:

This report sets out the Internal Audit coverage, findings and performance for 2018/19 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 contents of the report, including the audit opinion,
- II. Note the self-assessment exercise against the Public Sector Internal Audit Standards and
- III. Endorse the Quality and Assurance Improvement Plan for 19/20 shown in Appendix C.

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) Facilities 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 To fulfil this requirement, this report will cover:
- The internal audit coverage, findings and performance for 2018/19
 - 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 for 2018/19.
 - The performance against the agreed Quality Assurance and Improvement Plan (QAIP) for 2018/19.
 - The Quality Assurance and Improvement Plan (QAIP) for the internal audit service for 2019/20.

2 Audit work for 18/19

- 2.1 The audit plan for 2018/19 was agreed by the Licensing, Audit and General Purpose Committee on the 29th January 2018.
- 2.2 14 audits were originally planned to be completed within 18/19 to contribute to the audit assurance opinion.
- 2.3 Due to the following additional higher priority work being identified within 18/19
- Contaminated land and water review

The following lower priority audits were dropped from the plan to free up audit days:

- Financial borrowing
 - Improvement Programme
- 2.4 Furthermore, two audits from the 17/18 plan, Purchase Ledger and the Depot, which had not been finalised at the end of the last financial year, for an assurance opinion to be issued, have now been fully completed and so are also relied upon for the 18/19 opinion.
- 2.5 At the time of determining the audit assurance opinion 13 audits were used. Two audits, Capital Management and Contaminated land and water, are currently still in progress. Therefore, no opinion can be given for these areas yet. These audits will be carried forward into the 2019/20 audit plan to provide an assurance in 2019/20.

- 2.6 6 follow-ups on recommendations made within previous audits were also carried out in 18/19 to ensure that recommendations are implemented in a timely manner.

Audited area	Completed	Outstanding
IT portable equipment	1	5
Contract letting and tendering	0	13
Card payments	2	1
Transparency Code	2	2
Cyber Security	4	2
Parking Machine Income	3	4

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 18/19. 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 18/19, the opinion is based on:

- All audits undertaken in 18/19
- The result of any follow up action carried out in 18/19, in respect of previous audit work
- Any significant recommendations not accepted by management and the potential consequences.

- NFI fair processing checks
- Participation on a working group to develop and improve risk management throughout the Council
- Participation on a working group to incorporate the requirements of the General Data Protection Regulation (GDPR) across the organisation.
- Participation on a corporate governance working group.

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
<p>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.</p> <p>Using the information outlined within this report, in my professional opinion a reasonable assurance on the effectiveness of the Council's risk management, control and governance for 18/19 can be given.</p> <p>However, there are a few areas noted where action will enhance the adequacy and effectiveness of governance, risk management and control. These include:</p> <ul style="list-style-type: none"> • Rolling out of the reconstituted risk management process across the Council. • Development of an Asset Management strategy <p>It should be noted that these issues have already been recognised by Managers and they are working to address them.</p>

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 A self-assessment against the standards for 18/19 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 along with a comparison of the compliance in 17/18:

	Compliant			
	Yes	Partial	No	N/A
2017/18	285 (85%)	27(8%)	12 (3.5%)	12 (3.5%)
2018/19	306 (91%)	11 (3%)	5 (2%)	14 (4%)

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

- 4.3 The table above shows that in 2018/19 some work was undertaken in order to try and further achieve compliance towards the standards. This included:
- Considering an ethical audit within the 2019/20 audit plan.
 - Update of the Internal Audit Charter
 - Carrying out a Risk Management audit
- 4.4 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 The work carried out in 2018/19 towards the QAIP has resulted in the overall non-compliance being reduced by 1.5%.
- 5.2 The QAIP for 2019/20 should further reduce non-compliance. The full QAIP is set out in Appendix C.

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 July. 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

towards the roll out of the reconstituted risk management process be reported within the AGS. Furthermore, the progress towards developing an Asset Management Strategy should also be mentioned.

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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
Weekly refuse and recycling contract	Substantial
Corporate Governance	Reasonable
IT application access controls	Substantial
Disabled Facilities Grants	Substantial
General Data Protection Regulation (GDPR)	Reasonable
Risk Management	Limited
Benefits	Substantial
Recovery	Reasonable
Sales Ledger	Substantial
Contract Management and Monitoring	Reasonable
Planning Applications	Substantial
Purchase Ledger	Limited
Depot	Limited

Compliance with the Public Sector Internal Audit Standards – 2017/18

	Standard	Yes	Partial	No	N/A	Total	% Non compliance
1	Definition of Internal Audit	3	0	0	0	3	0%
2	Code of Ethics	13	0	0	0	13	0%
3	Attribute Standards						
3.1	Purpose, Authority and Responsibility	23	0	0	0	23	0%
3.2	Independence and Objectivity	23	1	1	5	30	3%
3.3	Proficiency and Due Professional Care	21	0	0	0	21	0%
3.4	Quality Assurance and Improvement Programme	25	2	0	0	27	0%
4	Performance Standards						
4.1	Managing the Internal Audit Activity	43	3	1	0	47	2%
4.2	Nature of Work	25	4	2	0	31	6%
4.3	Engagement Planning	55	0	0	3	58	0%
4.4	Performing the Engagement	22	0	0	0	22	0%
4.5	Communicating Results	47	1	1	6	55	2%
4.6	Monitoring Progress	4	0	0	0	4	0%
4.7	Communicating the Acceptance of Risks	2	0	0	0	2	0%
	Total	306	11	5	14	336	1%

QAIP for 2018/19

Action	Audit days	Changes to standard compliance
Update the internal audit policies and procedures	6 days	s.4.1 Action would move 2 partial and 1 non-compliance to full compliance
Include an ethics audit within the audit plan.	15 days	s.4.2 Action would move 3 partial-compliance to full compliance
Risk management process to be further developed and implemented throughout the Council.	20 days	s 4.2 Action would move 2 non-compliance and 1 partial compliance to full compliance
When issuing engagement results to external auditors ensure that the limitations on distribution and use of the engagement results is communicated.	Minimal	s.4.5 Action would move 1 non-compliance to a full compliance
TOTAL	41 days	