

## INTERNAL AUDIT – AUDIT OPINION

### **Summary:**

This report sets out the Internal Audit coverage, findings and performance for 2019/20 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 to allow the Audit Opinion to be formulated.
- II. Note the level of internal control assessed in 19/20 through opinion-based audit assurance work.
- III. Note the Audit Opinion given for 19/20.
- IV. Endorse the Performance Indicators for the internal audit activity for 20/21.
- 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 19/20 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 2019/20 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 was approved by this Committee on the 6<sup>th</sup> June 2019. Subsequent changes to the audit plan have been communicated 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 19/20, 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 the corporate governance group.
  - Mitigations in place to minimise the risks identified within the Corporate risk register.

## 3. Conclusion

- 3.1 Rushmoor Borough Council's framework of governance, risk management and management control is **reasonable** and assurance work undertaken has demonstrated controls to be working in practice.
- 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. 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.*
  - In place performance targets - *These have been put in place for 2019/20 as detailed within section 5 of Appendix A and shown as an action within the improvement plan in Appendix 3.*
  - Up to date policies and procedures – *Due to other higher priority work these were not updated within 19/20 but have been included as an action within the improvement plan in Appendix 3.*
  - Reviewed the Council's Ethics related objectives, programmes and activities. – *An ethics related audit was scheduled to be carried out in 19/20 but due to other higher priority work it was not completed and will be finalised in 20/21.*

**AUTHOR:** Nikki Hughes, Audit Manager  
01252 398810  
[nikki.hughes@rushmoor.gov.uk](mailto:nikki.hughes@rushmoor.gov.uk)

**HEAD OF SERVICE:** David Stanley, Executive Head of Financial Services

**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 2019/20

### 1. Introduction

- 1.1 The Internal Audit plan for 2019/20 was presented to and approved by the Licensing, Audit & General Purposes Committee on the 6<sup>th</sup> June 2019. The following report and appendices set out:
- The internal audit coverage, findings and performance for 2019/20
  - 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 2019/20.
  - 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 2020/21.

### 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 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 and processes are designed and working, with consulting

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

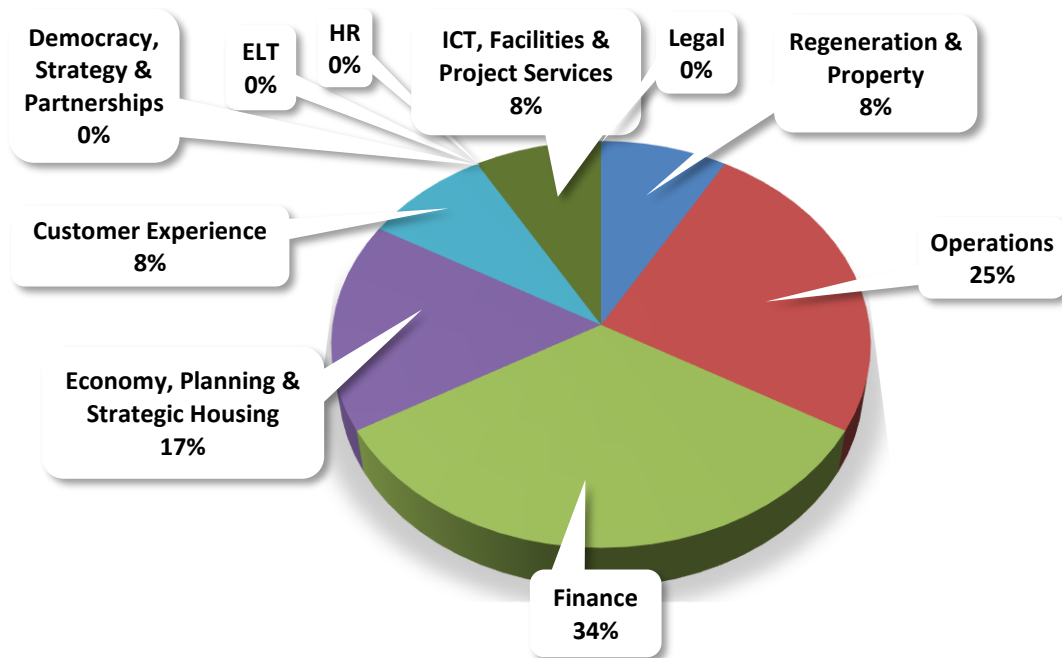
- 3.2 All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.

#### **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. The following revisions to the plan were made in 2019/20:
- The Capital programme management audit was brought forward from 2018/19
  - The Performance Management audit was deferred until 2020/21 due to the data not being reported in the new format at the time the audit was due to commence.
  - The Car Park Penalty Charge Notices audit was deferred until 2020/21 due to changes within the service.
  - The Taxi Licensing -fees processes audit was added at the request of Management
  - The Corporate Investigations Officers were due to carry out proactive anti-fraud work on the Housing tenancy/ allocation list and Procurement. However, as a large proportion of their work is unpredictable, due to being reactive, there was not the scope within 2019/20 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.
- 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 2019/20 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

4.7 The Council has achieved its PSN compliance until October 2020, when the annual check will be carried out. The management report received states,

*'The overall security posture of Rushmoor Borough Council's internal network was found to be fairly strong'*

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.

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 2019/20 internal audit plan has been delivered with the following exceptions:

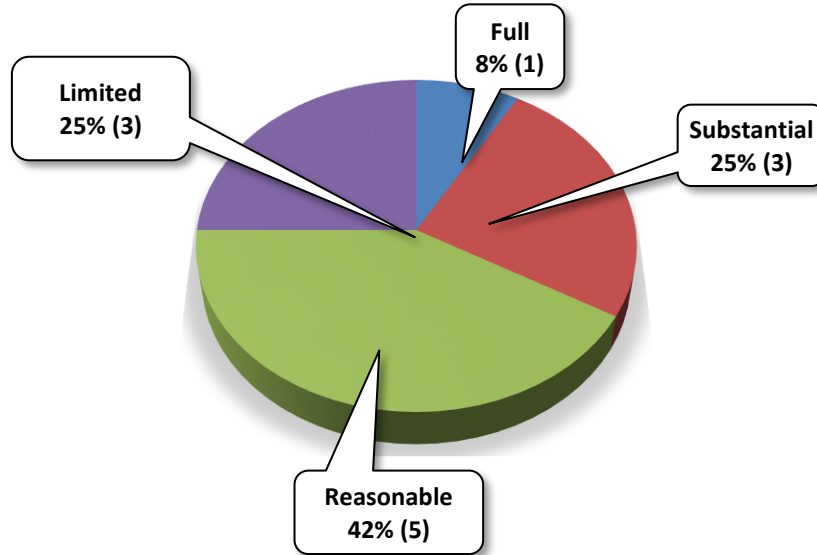
- Work is substantially complete, and an opinion has been formed for 8 audits, however, final reports have not yet been agreed with management.
- Due to the coronavirus, additional assurance work was required with the issuing of grants and auditees availability was impacted. As a result, 2 audits are not yet substantially completed and therefore will not be included within assurance opinion, these are, Petty cash and Housing company/RDP set up. However, they will be included within the 2020/21 audit opinion.

4.15 I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period.

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.

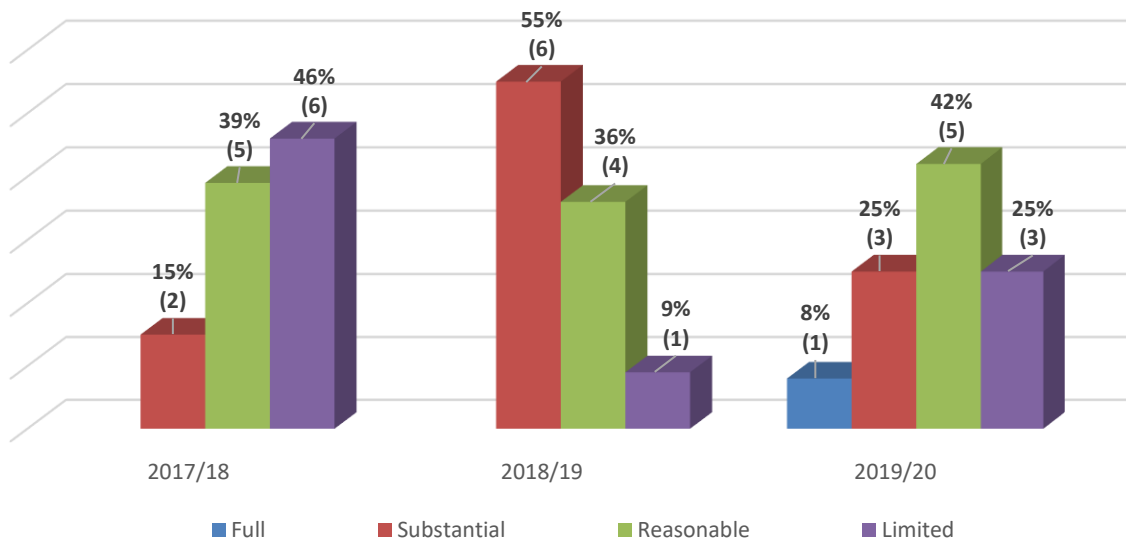
4.17 Analysis of the opinion-based assurance work shows the following distribution of opinions issued during 2019/20. Based on this, I can conclude that a satisfactory level of internal control is in operation in the Council. See also the audit update reports, which provide further detail on the assurances 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:

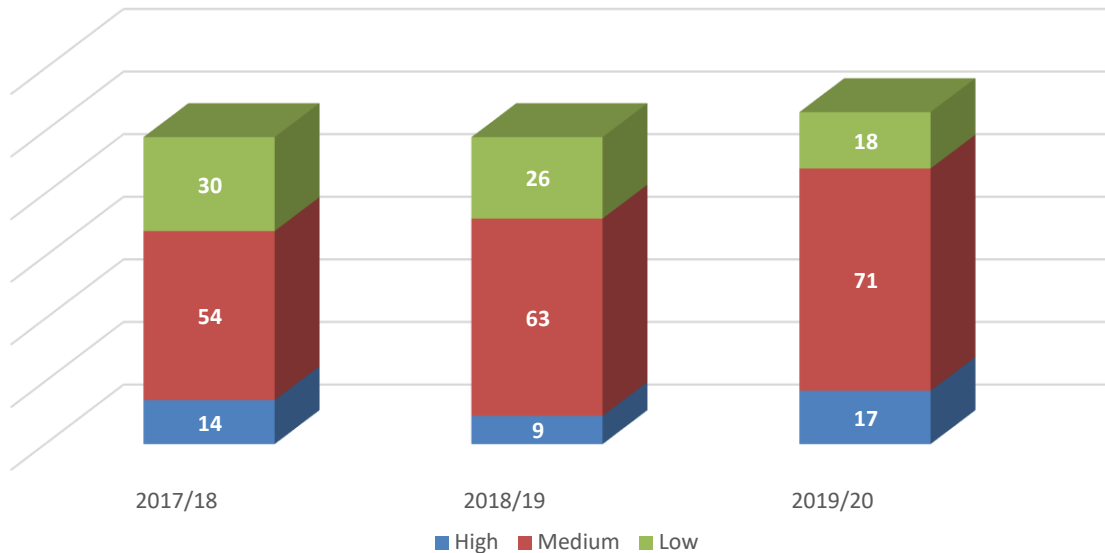
- The substantial assurances have increased from 2017/18.
- Limited assurance has decreased since 2017/18 with a slight increase in 2019/20.
- The first full assurance was provided within 2019/20, for Cash Receipting.
- Reasonable assurance has remained at a similar level across all 3 years.

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





4.20 The bar chart below shows the number and level of priority of recommendations made in comparison to previous years. This shows that, the overall number of recommendations made has remained at a similar level across the 3 years.



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

## 5. Performance indicators

5.1 Currently Internal Audit does not have in place any performance indicators to demonstrate the performance of the service. The following performance measures will be put in place within 2020/21 and reported within the next annual report:

- % 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.

## 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.

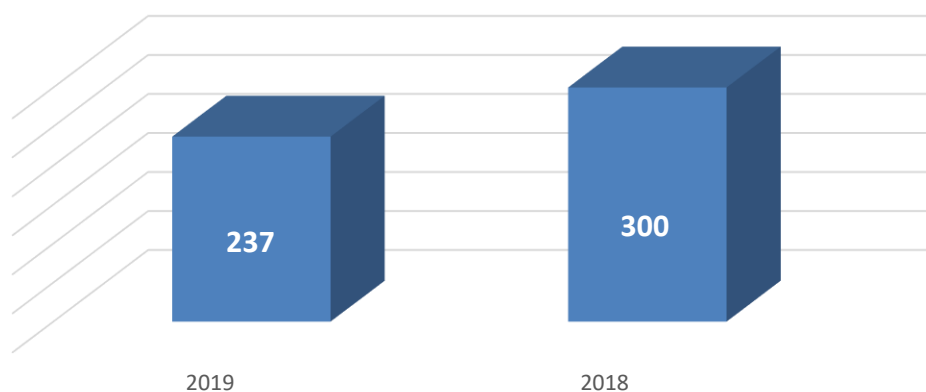
6.2 Policies and strategies are in place setting out the Council's approach and commitment to the prevention and detection of fraud or corruption. During 2019/20 the Council's Anti-fraud, bribery and corruption policy and Money-laundering policy were updated and will be included within the update to the Council's Constitution.

National Fraud Initiative (NFI)

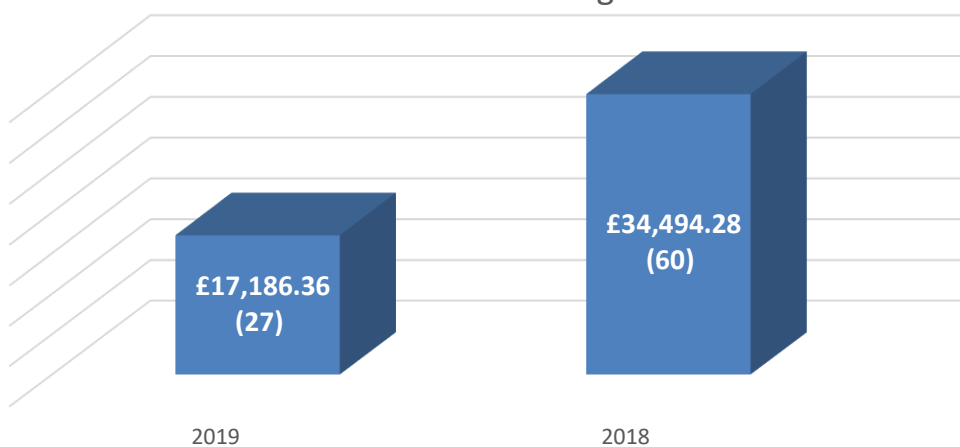
6.3 The Council continues to conform to the requirements of the National Fraud Initiative (NFI). An annual SPD NFI exercise is carried out to match data from the Council tax system and the Electoral roll. The Council submitted the required data sets for this in February 2019, with feedback on potential matches being received instantly.

6.4 Work continued during 2019/20 to review the identified matches. The outcome of the matches are detailed in the graphs below, which also show the outcome from the previous year. This shows that, although the total identified matches have remained similar, the number of matches confirmed as being irregular has reduced. Therefore, reducing the overpayment of Single Persons Discount.

Matches



Council Tax Savings



6.5 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 2018 receiving feedback on potential matches in February 2019. Work continued within 2019/20 to review identified matches. No irregularities have been identified as a result of the matches reviewed as part of this exercise.

Proactive anti-fraud work

6.6 Pro-active fraud awareness was undertaken on Housing tenancy fraud, during fraud awareness week in November 2019. Leaflets and Social Media posts with videos were promoted by Rushmoor.

Irregularities

6.7 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 2019/20 are detailed in the table below. *(The below figures do not detail any work carried forward from 2018/19)*

<b>Area</b>	<b>No. of cases</b>
Fly tipping	4
FPN littering	14
Tree Preservation Order breaches (TPO)	1
Revenue & Benefits	67
Community	1
Parks & Grounds	6
Total	93

## 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

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 internal control environment.

In my professional opinion, Rushmoor Borough Council's framework of governance, risk management and management control is **reasonable** 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.

## 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 19/20 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
2019/20	300 (94.93%)	12 (3.80%)	4 (1.27%)	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.*
  - In place performance targets - *These have been put in place for 2019/20 as detailed above in section 5 and shown as an action within the improvement plan within Appendix 3.*
  - Up to date policies and procedures – *Due to other higher priority work these were not updated within 19/20 but have been included as an action within the improvement plan within Appendix 3.*
  - Reviewed the Council's Ethics related objectives, programmes and activities. – *An ethics related audit was scheduled to be carried out in 19/20 but due to other higher priority work it was not completed and will be finalised in 20/21.*

## 9. Quality Assurance and Improvement Plan (QAIP)

- 9.1 The QAIP for 2020/21 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 2020/21 is set out in Appendix 3.



## Appendix 2

## 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	17	3	1
<i>Performance Standards</i>						
Managing the internal audit activity	47		47	43	3	1
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		
<b>Totals</b>	<b>336</b>	<b>20</b>	<b>316</b>	<b>300</b>	<b>12</b>	<b>4</b>
				<b>94.93%</b>	<b>3.80%</b>	<b>1.27%</b>

## Quality Assurance and Improvement Plan (QAIP) 2020/21

<b>Non-conformance</b>	<b>Action</b>	<b>Comments</b>
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 2019/20. However, due to other higher priority work this was not carried out.
Performance targets are not in place for the internal audit activity.	Performance targets will be put in place for 2020/21 and reported to the Board.	Performance targets have been detailed within this report and the outcome against these targets will be communicated to the Board within the annual report for 2020/21.
Ethics related review has not been carried out.	An ethical review will be carried out within 2020/21.	An ethical audit was scheduled to be carried out within 2019/20. However, this was not sufficiently completed at the time of this report therefore the findings will be carried forward to 2020/21.