

The Annual Internal Audit Report 2019-20

Report of the Shared Internal Audit Partnership Manager - (Portfolio: Finance)

Recommended:

That the work performed by the internal audit team over the previous year (April 2019 - March 2020) be noted.

SUMMARY:

This report provides an:

- Overview of the internal audit work covering the financial year 2019-20.
- Opinion on the overall adequacy and effectiveness of the Council's internal control environment.

1 Introduction

1.1 Members of the Overview and Scrutiny Committee have requested an Internal Audit Annual Report. This paper is based on the reports provided by the Shared Internal Audit Partnership Manager to the Audit Panel in this period.

1.2 In this period there have been three Audit Panel meetings:

- 25th July 2019
- 9th December 2019
- 16th March 2020

2 Opinion on the Overall Adequacy and Effectiveness of the Council's Internal Control Environment

2.1 The overall opinion of the Shared Internal Audit Partnership Manager is that a **substantial level of assurance** can be given that there is a sound system of internal control, designed to meet the Council's objectives, and that controls are being applied consistently. The Internal Audit function generally conforms with the International standards for the Professional Practice of Internal Auditing and specifically the Public Sector Internal Audit Standards UK with the exception included in the qualification to the opinion below.

3 Qualifications to the Opinion

3.1 The opinion of the Shared Internal Audit Partnership Manager is based upon, and limited to, the work performed during the year. The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the Council, but is based upon the range of individual opinions arising from risk based audit assignments completed during 2019/20.

- 3.2 Due to the timing of the external PSIAS assessment in March 2019, the audit plan for 2019/20 had already been created based on the existing audit universe which, following the assessment has been declared as inadequate. Therefore it was not possible to confirm that the Authority had produced an audit plan which encompassed the key risks facing the Council. By way of mitigation to this, the key fundamental system audits were conducted under a new Risk based Auditing model providing confidence that the main financial audits of the Council had incorporated a robust risk assessment to ensure the scope was adequate in determining the risks associated with those activities.
- 3.3 The assurance opinions relating to the 25 audits in the audit plan (where an opinion had been given) are summarised as follows:

Opinion	Number	Percentage
Full Assurance	6	24%
Substantial Assurance	18	72%
Limited Assurance	1	4%

The audit that received a limited opinion was “Inventories.”

- 3.4 82% (27 of the 33 programmed audits) of the original audit plan was delivered to final or draft report stage against a target of 95%. A further 2 audits (6%) were in progress. Following approval at the March 2020 Audit Panel 3 audits (9%) including Sickness & Absence Management, Members Allowances and IT BCP and Disaster Recovery have been deferred into the 2020/21 Audit Plan and 1 audit (3%), Homelessness, has been removed from the Audit Plan. Therefore, after revising the audit plan the team delivered **93%** (27 of the amended target of 29 audits). This reduced coverage over the year was a culmination of reduced resources, staff absences and recruitment of new members of the team.
- 3.5 The team achieved 79.6% productive time against a target of 90% for the period 1 April 2019 to 31 March 2020. Overall the performance of the team with the support of an external provider has been good and high standards have continued to be achieved. The productive rate reflects the reduced in-house resource availability. However with the external support (within the existing budget) a significant amount of the audit plan was delivered and all core work was completed on time to ensure the Council could complete its financial statements and supporting documents.
- 3.6 All actions arising from audit reports are agreed with the management responsible for the area/function. These actions are monitored by each Service’s Performance Board and recorded on the performance management system. A review of the system was undertaken to ascertain the status of audit actions as at 31/07/20. The results as at 31st July 2020 are summarised in the table below:

Audit Actions:	Risk:	Total:	Complete:	In Progress/Pending:
2017-18	High	1	1 (100%)	0 (0%)
	Medium	48	44 (92%)	4 (8%)
	Low	24	22 (92%)	2 (8%)
2018-19	High	0	0 (0%)	0 (0%)
	Medium	28	17 (61%)	11 (39%)
	Low	42	35 (83%)	7 (17%)
2019-20	High	0	0 (0%)	0 (0%)
	Medium	7	0 (0%)	7 (100%)
	Low	21	12 (57%)	9 (43%)
Grand Total		171	131	40

3.7 All of the outstanding actions arising from yearly audit reviews have been discussed in detail with the Audit Panel. Many are in progress or have slipped. None are considered to be high risk.

4 Internal Audit Progress 2020/21 to 30th June 2019

4.1 The Annual Audit Plan for 2020/21 was approved by the Audit Panel on 16th March 2020.

4.2 The Annual Audit Plan 2020/21 has been based on the Council's risk registers and Internal Audit contributes towards the overall corporate governance framework of assurance. The Internal Audit team has been involved in and given priority to the Covid-19 response and recovery impact assessment and action planning. The pandemic has impacted the Council's risk management including both corporate and service risks. As a result at the July Audit Panel Members approved a revised Audit Plan for 2020-21 to re-align with the risk registers. Resources will continue to be reviewed as the Covid-19 recovery action plans are put into effect and another update is to be provided for the Audit Panel in November 2020 if necessary.

4.3 There are 28 programmed audits within the revised 2020/21 audit plan of which 0 (0%) were complete or at draft report stage and 4 (14%) were in progress as at 30 June 2020.

4.4 Contingency time is included in the plan for Special Investigations, S151 Requests and completion of audits from the 2019/20 audit plan. No time has been spent on Special investigations or S151 requests to date in this year.

5 Corporate Objectives and Priorities

- 5.1 The work of the Internal Audit function supports the Council's four strategic aims for maintaining and improving quality of life in Test Valley, by ensuring that the Council makes the most of its available resources and transforms the way it works, to provide even better value for money and effective service delivery.

6 Consultation/Communications

- 6.1 The Internal Audit Plan for 2019/20 involved full consultation with senior management, the Council's External Auditors and the Audit Panel.

7 Options

- 7.1 In accordance with best professional practice, currently the Public Sector Internal Audit Standards, each year a plan is produced and internal audit resources allocated to the areas of the Council's activity which need to be reviewed during the year.
- 7.2 The Council has limited options in this matter as without this the Council is at risk of providing inadequate audit coverage on high-risk areas and no assurance on the control environment.

8 Risk Management

- 8.1 The annual audit plan 2019/20 was based on the Council's risk registers and Internal Audit contributes towards the overall corporate governance framework of assurance.

9 Resource Implications

- 9.1 The Audit Plan for 2019/20 was based on **3.0 full time** equivalent auditors employed by Test Valley Borough Council and **0.2 full time** of an Audit Manager's time provided in partnership with Portsmouth City Council. However during the year, only strategic level support has been provided by the Shared Internal Audit Partnership Manager pending completion of the partnership agreement in March 2020.
- 9.2 The Audit Plan for 2020/21 was based on **3.0 full time** equivalent auditors employed by Test Valley Borough Council and **0.1 full time** of an Audit Manager's time provided in partnership. The Covid-19 pandemic and staff vacancies has impacted resources and revisions to the Audit Plan were made as a result.
- 9.3 The Internal Audit Team's independence and objectivity has been maintained in accordance with the Public Sector Internal Audit Standards. The exception to this is the Principal Auditor's role in facilitating the Council's Risk Management. In order to provide a compensating control the Risk Management Audit is undertaken by the Senior Auditor and the outcomes reported to the Head of Finance.

10 Equality Issues

- 10.1 The report is for information purposes, so the Council's EQIA process does not need to be applied.

11 Conclusion

- 11.1 The review of the effectiveness of Internal Audit has shown that there is **substantial compliance** with the Standards detailed in the Public Sector Internal Audit Standards 2013.
- 10.2 This report outlines the work undertaken by Internal Audit from 1 April 2019 to 31 March 2020 and the overall performance in delivery of the 2019-20 Audit Plan. It also provides a summary of the work undertaken to 30th June 2020 on the delivery of the 2020/21 Audit Plan.

<u>Background Papers (Local Government Act 1972 Section 100D)</u> None			
<u>Confidentiality</u> It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	Nil		
Author:	Jan Balfour – Principal Auditor	Ext:	8234
File Ref:			
Report to:	Overview and Scrutiny Committee	Date:	16 September 2020