

The Annual Internal Audit Report 2020-21

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

Recommended:

That the work performed by the internal audit team over the previous year (April 2020 - March 2021) be noted.

SUMMARY:

This report provides an:

- Overview of the internal audit work covering the financial year 2020-21.
- 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 Interim Internal Audit Partnership Manager and Principal Auditor to the Audit Panel in this period.

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

- 27th July 2020
- 23rd November 2020
- 15th March 2021

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

2.1 As there was no Internal Audit Manager in post at the time of producing the Annual Audit Opinion this has been provided as part of a service contract with the Council. The formulation of the opinion has been based on information and documentation provided by officers from TVBC and therefore the opinion was given without delegation or control of the Audit Charter and Strategy or how the audits, undertaken during 2020/21, were risk assessed and scoped.

- 2.2 Based on the data provided in relation to the audit plan and other internal governance arrangements, the Temporary Deputy Chief Internal Auditor of Portsmouth City Council, acting as the Interim Internal Audit Partnership Manager has provided a **Substantial level of assurance** in respect of the Council's risk management, control and governance arrangements.
- 2.3 The Internal Audit function generally conforms to the International Standards for the Professional Practice of Internal Auditing and specifically the Public Sector Internal Audit Standards UK. (PSIAS). A self-assessment of the internal audit function's conformance with these standards was carried out in March 2021. The Public Sector Internal Audit Standards are a mandatory requirement, the objectives of which are to:
- Define the nature of internal auditing within the UK public sector,
 - Set basic principles for carrying out internal audit in the UK public sector,
 - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
 - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 2.4 Actions to address areas of "partial" assurance, which will be monitored during 2021-22 included:
- Where appropriate, develop and embed the use of CAATS (Computer Assisted Audit Techniques), and other methodologies in testing.
 - Report the Audit Universe annually to the Audit Panel when presenting and seeking approval of the Annual Audit Plan.
 - Consider the use of other management Key Performance Indicators.
 - Annual feedback from Heads of Service to be formally documented as part of the annual planning exercise.
 - Review the appropriateness of supervisory checks to ensure compliance with the Standards where the Internal Audit Manager is involved in audit assignments and projects.
 - In order to embed a culture of continuous improvement, formally report the Quality Assurance Improvement Programme to Senior Management (Head of Finance & Revenues/S151 officer) and Audit Panel for approval and oversight.
 - Review levels of audit coverage of activity required by benchmarking with other local authorities.
 - Consider feedback from the Audit Panel Chair and Chief Executive when reviewing the performance of the Internal Audit Manager in their annual PDD.
- 2.5 There is evidence that the work the Internal Audit function has delivered is effective; especially around risk and performance. It contributes to and has influence in the Authority on these areas. It is a highly respected service that is engaged with the organisation and which provides on-going support in key areas, as well as effective assurance on controls.

- 2.6 The assurance opinions relating to the 24 audits in the audit plan (where an opinion had been given) are summarised as follows. This includes 2 unplanned summary reports on Covid19 Governance and Business Support Grants:

Opinion	Number	Percentage
Full Assurance	2	8.5%
Substantial Assurance	21	87.5%
Limited Assurance	1	4%

The audit that received a limited opinion, at the time of the audit, was in respect one control weakness in a service area that otherwise would have received substantial assurance. Mitigating action has subsequently been taken to address the control weakness identified.

3 Independence and Objectivity

- 3.1 The Internal Audit Team's independence and objectivity has been maintained in accordance with the Public Sector Internal Audit Standards. The exception to this has been the Principal Auditor's role in facilitating the Council's Risk Management. In order to provide a compensating control, Risk Management Audits are undertaken by the Senior Auditor and the outcomes reported to the Head of Finance & Revenues.

4 Internal Audit Performance 2020/21:

- 4.1 This report outlines the work undertaken by Internal Audit from 1 April 2020 to 31 March 2021 and the overall performance in delivery of the 2020-21 Audit Plan.
- 4.2 76.5% (23 of the 30 programmed audits) of the original audit plan was delivered to final or draft report stage against a target of 95%. Three audits (10%) were in progress as at 31 March 2021. In response to the pandemic and revision of priorities, the deferral of three audits (Staff Recruitment, Elections Management and Valley Housing) was approved by the Audit Panel in July 2020. A further two audits (Health & Safety and Asset Management) were deferred as approved by the Audit Panel in March 2021. Therefore, after revising the audit plan the team delivered 92% (23 of the amended target of 25 audits). The reduced coverage over the year was a culmination of reduced resources, staff absences and Covid19 priorities (the latter of which resulted in two additional and unplanned summary reports/assurance opinions).

4.3 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 31/03/21. The results are summarised in the table and narrative below:

Audit Actions:	Risk:	Total:	Complete:	In Progress/Pending:
2018-19	High	0	0 (0%)	0 (0%)
	Medium	27	20 (74%)	7 (26%)
	Low	43	39 (91%)	4 (9%)
2019-20	High	0	0 (0%)	0 (0%)
	Medium	10	3 (30%)	7 (70%)
	Low	25	20 (80%)	5 (20%)
2020-21	High	0	0 (0%)	0 (0%)
	Medium	7	4 (57%)	3 (43%)
	Low	11	8 (73%)	3 (27%)
Grand Total		123	94	29

4.4 11 actions arising from 2018-19 audit reviews are in progress or have slipped. None are high risk.

4.5 12 actions arising from 2019-20 audit reviews are in progress or have slipped. None are high risk.

4.6 6 actions arising from 2019/20 audit reviews are in progress or have slipped. None are high risk.

4.7 The detail of the 29 remaining actions referred to above has been reported to the Audit Panel. The implementation of these actions is regularly monitored and followed up by both Internal Audit and the Service Performance Boards.

5 2021/22 Audit Plan - Progress and performance report to 30th June 2021

5.1 The Annual Audit Plan for 2021/22 was approved by the Audit Panel on 15th March 2021.

- 5.2 There are 25 (plus 1 held in reserve) programmed audits within the 2021/22 audit plan of which 1 (4%) is complete and 4 (16%) are in progress as at 30 June 2021. An assurance role on 2 projects is also underway.
- 5.3 Contingency time is included in the plan for Special Investigations, S151 Requests and completion of audits from the 2020/21 audit plan. No time has been spent on special investigations or S151 requests as at 30th June 2021.

6 Corporate Objectives and Priorities

- 6.1 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.

7 Consultation/Communications

- 7.1 The Internal Audit Plan for 2020/21 involved full consultation with senior management, the Council's External Auditors and the Audit Panel.

8 Options

- 8.1 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.
- 8.2 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.

9 Risk Management

- 9.1 The annual audit plan 2020/21 was based on the Council's risk registers and Internal Audit contributes towards the overall corporate governance framework of assurance.

10 Resource Implications

- 10.1 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 equivalent of an Audit Manager's time provided in partnership. The Covid-19 pandemic and staff vacancies impacted resources and revisions to the Audit Plan were approved.
- 10.2 The Audit Plan for 2021/22 was based on 3.0 full time equivalent audit staff employed by Test Valley Borough Council. Following a minor re-structure and conclusion of the partnership arrangements the roles of Principal Auditor and Internal Audit Manager have been combined and a Senior Auditor was appointed to the team from 9th August.

10.3 It is likely that some of the unused budget for the Senior Auditor role from earlier in the year may be used to engage external audit specialists to ensure timely delivery of the Internal Audit Plan.

11 Equality Issues

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

12 Conclusion

12.1 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.

12.2 This report outlines the work undertaken by Internal Audit from 1 April 2020 to 31 March 2021 and the overall performance in delivery of the 2020-21 Audit Plan. It also provides a summary of the work undertaken to 30th June 2021 on the delivery of the 2021/22 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		
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