

Internal Audit Annual Report 2021/2022 and Progress Report 2022/23 to 31/05/22

Report of the Internal Audit Manager (Portfolio: Finance and Resources)

Recommended:

1. That the Internal Audit Annual Report 2021/22, the assurance opinion as at 31 March 2022 on the system of internal control and the overall conclusion on the effectiveness of Internal Audit be endorsed.
2. That the Internal Audit Progress report to 31 May 2022 be endorsed.

Summary:

This report provides:

- An opinion on the overall adequacy and effectiveness of the Council's control environment and a summary of the audit work from which the opinion is derived for the financial year ending 31 March 2022.
- Internal Audit coverage, findings and performance for audit work undertaken in 2022/23 to 31 May 2022 and gives an assurance opinion on the adequacy and effectiveness of the Council's internal control framework for those areas reviewed.

1 Introduction

- 1.1 The Council is required to produce an annual report and opinion under the Public Sector Internal Audit Standards (PSIAS). This forms an integral part of the formulation of the Council's Annual Governance Statement, as required under the Accounts and Audit Regulations 2015 and the CIPFA 'Framework for Delivering Good Governance in Local Government'. This assessment is carried out by the Internal Audit Manager.

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

- 2.1 The formulation of the opinion is based on audit work carried out during 2021/22 and undertaken in accordance with the Annual Audit Plan, Audit Charter and Strategy. Based on the audit findings and conclusions and review of other internal governance arrangements, the Internal Audit Manager is able to provide a **Substantial level of assurance** in respect of the Council's risk management, control and governance arrangements.

2.2 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 2022. 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.

2.3 No areas of “partial” assurance were highlighted. There were however some areas where further developments could improve the efficiency and effectiveness of the team going forwards. These areas will be progressed during 2022-23 and included:

- Bringing the Audit Charter and Strategy to the Audit Committee to inform Members of the core principles for the professional practices of internal auditing and to obtain endorsement of any future updates.
- Seeking opportunities for feedback on the performance of the Internal Audit Manager from the Audit Committee and Chief Executive.
- Continuing, where appropriate, to develop the use of CAATS (Computer Assisted Audit Techniques), and other methodologies in testing.
- Developing and reporting on the Internal Audit Team role in project assurance whilst ensuring independence is maintained as clearly expressed in the Audit Charter.
- Developing and embedding fraud awareness processes.

2.4 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.

2.5 The assurance opinions relating to the 20 pieces of audit work (where an opinion has been reported to the Audit Panel) are summarised as follows. This includes 2 unplanned investigation summary reports:

<u>Opinion</u>	<u>No.</u>	<u>%</u>
Full Assurance	0	0%
Substantial Assurance	15	75%
Substantial/Limited	1	5%
Limited Assurance	4	20%

The Audits which, at the time of the audit, received a limited assurance opinion were Information Management, Procurement (Amendment) Regulations and the two unplanned investigation summary reports.

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 Internal Audit Manager'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 2021/22:

4.1 The table provided in Annex 1 details the work carried out by Internal Audit against the revised Audit Plan during the period 1 April 2021 up to and including 31 March 2022.

4.2 78% (21 of the 27 programmed audits) of the original audit plan was delivered to final or draft report stage. 2 audits (7%) were in progress as at 31 March 2022 and 4 (15%) have slipped to 2022/23 or been deferred. The audits proposed for deferral to the 2022/23 Annual Audit Plan include Asset Management, Emergency Planning and Garden Waste. This revises the 2021/22 Audit Plan to 24 programmed audits with 87.5% (21 audits) completed to final or draft report stage. The slippage was due to staff vacancies during the year and additional time spent on recruitment.

4.3 The Executive Summaries for 6 planned audits completed to final report stage for 2021/22 are shown in Annex 3:

- Accounting
- Housing Benefit and Council Tax Support.
- Payroll
- Leisure Contract
- Projects Summary
- Major Development Areas

4.4 Contingency time was included in the 2021/22 Audit Plan for Special Investigations, S151 requests and completion of work from the previous year's Audit Plan. 2 pieces of work have been undertaken using the special investigations budget during the year to 31 March 2022 both of which have been reported to the Audit Panel. Some preliminary discussion has taken place around post assurance review of Test and Trace payments using the S151 time allocation. Internal Audit also spent time providing a project assurance role on projects during the year which is summarised in the Project Summary report in Annex 2.

4.5 All actions coming from audit reviews to date have been accepted by management and programmed for implementation.

4.6 Overall the performance of the team has been good and high standards have continued to be achieved.

5 2022/23 Audit Plan - Progress and performance report to 31/05/22

5.1 The Annual Audit Plan for 2022/23 was approved by the Audit Panel on 14th March 2022. Progress against the plan is shown in Annex 2 of this report.

5.2 The table provided in Annex 2 details the work carried out by Internal Audit against the Audit Plan during the period 1 April 2022 up to and including 31 May 2022.

5.3 There are 26 (plus 2 held in reserve) programmed audits within the 2022/23 audit plan of which 1 (4%) is at draft report stage and 4 (15%) are in progress as at 31 May 2022.

5.4 Contingency time is included in the plan for Special Investigations, S151 Requests and completion of audits from the 2021/22 audit plan. No time has been spent on Special investigations to date. 1 piece of work is underway using the S151 requests allocation to provide some post assurance work on the £150 energy rebate. Annex 2 provides the time spent concluding the 2021/22 audits.

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 Consultations/Communications

7.1 Management have been consulted and have agreed the scope of the audit reviews and the actions arising.

7.2 The Internal Audit Plan for 2022/23 involved full consultation with senior management and the Audit Panel and a copy provided to the Council's External Auditor.

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 2022/23 has been 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 2021/22 was based on 3.0 full time equivalent auditors employed by Test Valley Borough Council. Staff vacancies impacted resources with no Senior Auditor for the first 4 months of the year and the Trainee Auditor vacating at the end of February 2022.

11 Equality Issues

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

12 Conclusion

- 12.1 This report outlines the work undertaken by Internal Audit from 1 April 2021 to 31 March 2022 and the overall performance in delivery of the 2021/22 Audit Plan. It also provides progress on the 2022/23 Audit Plan to 31 May 2022.

<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:	3		
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