

## Internal Audit Strategy 2022

### 1. Purpose and mission

The purpose of the Internal Audit Strategy is to outline the strategic approach that will be adopted by the Internal Audit Manager in managing and delivering the Internal Audit Service. The strategy works in conjunction with the audit charter. The mission of Internal Audit, as defined by the Public Sector Internal Audit Standards, is "to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight."

### 2. Values to meet

Test Valley Borough Council has outlined its key values and principles as part of the Corporate Plan. These principles are vision led, values driven, democratically accountable and evidence based decision making. The Internal Audit function will operate under these principles and will collaborate with and provide value to the Authority by undertaking audits to verify evidence and champion values of Accountability and Integrity.

### 3. Objectives

The key objectives of the Internal Audit team are to facilitate:

- (a) A sufficient review of the Authority's functions to form an annual opinion on the effectiveness of the control framework. This opinion forms part of the Annual Governance Statement, which is a statutory requirement and must incorporate a statement on Internal Audit's conformance with the Public Sector Internal Audit Standards.
- (b) An assurance on the organisation's governance and control arrangements, including risk management, through the annual audit plan in a way that gives suitable priority to the organisation's objectives and risks.
- (c) An assurance role on major projects including the governance arrangements, risk management and control arrangements.
- (d) Improvement of the organisation's governance, control, and risk management, by highlighting any exceptions raised during testing to line management and agreeing mitigating actions.
- (e) Effective co-operation with external auditors.
- (f) Reactive work such as general advice, consultancy services and investigations that add value to the organisation in meeting its objectives and aims to improve governance and risk management
- (g) Horizon scanning to ensure the inclusion in the audit risk analysis of key areas likely to impact on the organisation, including emerging areas of fraud and theft.
- (h) A service that customers feel they can come to when necessary in confidence and which provides a professional and responsive level of advice and assurance.

#### 4. Audit Planning

The Internal Audit Manager is required to produce an annual plan of audit assignments for each financial year. The Audit Plan will define the Audit Title and a proposed duration of the audit based on the risk assessment that was undertaken at Audit Universe Stage.

The Audit Universe is a collection of all the auditable activities within the organisation. The Audit Universe is generated by the Internal Audit Manager via research, experience, Local Authority knowledge, review of the Corporate and Service Risk Registers, consultation with Senior Management and Councillors. The Audit Universe is always evolving based on information gained as part of ongoing consultation with staff, managers, and senior officers.

On an annual basis, all the activities within the Audit Universe will be risk assessed using scoring criteria with 1 being low and 5 being high.

- (a) Financial Risk
- (b) Operational Risk
- (c) Legal Risk
- (d) Other Risks (Health and Safety, Reputational, Political, Environmental)

The total value of these scores will then be put through a multiplier which will be based on the last time the area was audited and the results of that audit. Any audit which scores above 15, will be deemed as High Risk and therefore will be considered for the Audit Plan.

The Annual Audit Plan will cover between 20-25% of the total population of the audit universe, as agreed with the s151 Officer and Audit Committee. This is comparable with other similar sized Local Authorities.

Risk areas and levels in Local Authorities are ever evolving and as such, there is flexibility in the Annual Audit plan to allow for audit assignments to be deferred, added, or amended. All changes to the Audit Plan will be presented to the Audit Committee.

#### 5. Exceptions

Should any risks be identified as part of the auditing process, they will be highlighted to management during the audit and in the final report that will be produced. These will be raised as exceptions/issues and will be given a risk level and a category in relation to the control framework. Internal audit operates with 3 Risk Levels:

- High (1)** Major issues for the attention of senior management.
- Medium (2)** Other recommendations for local management action.
- Low (3)** Minor matters.

All exceptions raised will require an action to be agreed with and completed by the Audit Client, along with a timescale for implementation. In the event where management decide not to take any action against an identified issue/risk resulting

from an audit assignment, this will be reported to the s151 for comment prior to the issue of the report. All exceptions together with the agreed action and implementation timescale will be recorded in the Council's Performance Management System

## 6. Follow ups

All exceptions and their agreed actions which have become due for completion and remain open will be reviewed by the Service's Performance board on a quarterly basis. In addition, all exceptions will be followed up by Internal Audit on a 6 monthly basis to review progress of the agreed actions. This will include follow up testing for High-Risk exceptions.

Statistics on the completion of the agreed actions will form part of the Audit Plan Progress reports and Annual Audit report.

## 7. Resources & Skills

The current Internal Audit team has 3 FTE and is managed by an Internal Audit Manager. The Public Sector Internal Audit Standards for Internal Audit in the UK requires that staff be suitably qualified and experienced. All current staff employed by Internal Audit either has a relevant qualification (CMIIA) or are commencing studying to obtain a professional qualification. In addition, the senior staff have several years' internal audit experience. The internal audit team is resourced to cover high risk areas identified as part of the Audit Universe outlined above.

Skills within the audit team are assessed as part of the Quality Assurance and Improvement Programme (QAIP), referenced in the Audit Charter. Audit assignments are made based on the skills and resources which best suit the subject. Specialist auditing areas, such as contract or IT audit, will be resourced externally if the need arises.

Due to the team being small in numbers, the Internal Audit Manager will ensure there is suitable rotation of audits between the team on an annual basis.

Internal Audit staff will be required to declare, on an annual basis, any areas of audit where they do not feel they can be objective within Test Valley Borough Council. If an issue is identified, the Internal Audit Manager will risk assess and either reappoint an auditor to that assignment or implement other mitigating actions to deal with the potential issue.

Any continuing professional development (CPD) requirements for the team will be considered as part of the QAIP and Training Plans outlined in section 10

## 8. Audit Opinions and Annual Opinion

Each audit undertaken will result in an Audit Report. Testing undertaken within the audit will be given an assurance level based on the adequacy and effectiveness of the controls tested. Each exception arising will be scored in accordance with the Corporate and Service Risk Register scoring matrix (see below):

### **Likelihood**

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|                      |                                |                                |                                 |                                 |
|----------------------|--------------------------------|--------------------------------|---------------------------------|---------------------------------|
| A. Very High         | <b>Substantial or Limited*</b> | <b>Limited</b>                 | <b>No Assurance</b>             | <b>No Assurance</b>             |
| B. High              | <b>Substantial</b>             | <b>Limited</b>                 | <b>Limited or No Assurance*</b> | <b>No Assurance</b>             |
| C. Significant       | <b>Substantial</b>             | <b>Substantial or Limited*</b> | <b>Limited</b>                  | <b>Limited or No Assurance*</b> |
| D. Low               | <b>Substantial or Full*</b>    | <b>Substantial</b>             | <b>Substantial or Limited*</b>  | <b>Limited</b>                  |
| E. Very Low          | <b>Full</b>                    | <b>Substantial or Full*</b>    | <b>Substantial</b>              | <b>Limited</b>                  |
| F. Almost impossible | <b>Full</b>                    | <b>Full</b>                    | <b>Substantial</b>              | <b>Substantial or Limited*</b>  |
|                      | IV<br>Negligible               | III<br>Significant             | II<br>Critical                  | I<br>Catastrophic               |
|                      | <b><u>Impact</u></b>           |                                |                                 |                                 |

The Audit will then be given an overall assurance level based on the risk posed to the Authority. These assurance levels are:

-  **Full**

There is a sound system of control designed to achieve the system objectives.
-  **Substantial**

While basically there is a sound system there are weaknesses which put some of the control objectives at risk.
-  **Limited**

Weaknesses in the system of controls are such as to put the system objectives at risk.
-  **No Assurance**

Control is generally weak leaving the system open to significant error or abuse.

The overall Annual Audit Opinion will be delivered in the Annual Report and will be based on the adequacy and effectiveness of controls tested within the control framework. The Accounts and Audit Regulations require that Internal Audit provide

independent assurance on the control framework (the Audit Opinion) for inclusion in the Annual Governance Statement (AGS) therefore, the priority for the Internal Audit Service must be to carry out and achieve the planned work as contained in the Annual Audit Plan.

The opinion will be based on the completion of the Audit Plan, assurance levels of the completed audits, the number of exceptions raised, the results of follow up audits, the level of external assurances gained, and the number of investigations undertaken within that year.

The Annual Opinion will also follow the framework of the above Assurance Levels.

### 9. Additional

The statutory work of the internal audit team is outlined in the Audit Charter section 3, based on the requirements defined in the Accounts and Audit Regulations 2015. The statutory Audit work will always be the main priority of the team, however in addition to the statutory duties; many audit teams logically are involved/manage the following areas on behalf of the Authority:

- (a) Administration of the National Fraud Initiative (NFI) for Test Valley Borough Council
- (b) Involvement on Project Boards for key projects undertaken by the Council
- (c) Fraud Investigations and Probity Reviews
- (d) Facilitation of Risk Management
- (e) Facilitation of Control, Risk, Self-Assessments (CRSAs)
- (f) Review of Corporate Governance Framework to support the Annual Governance Statement
- (g) Ad-hoc Advice and Assurance
- (h) S151 Requests

### 10. Training & CPD

Staff training will be considered as part of the QAIP, as detailed in the Audit Charter. A mix of professional (Accountancy, Institute of Internal Auditors, IT Audit) training will be combined with in house training provided by senior members of the team.