



## **Annex 1**

### **Test Valley Borough Council Annual Audit Report 2022/23**

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# 1. Background

## Public Sector Internal Audit Standards

- 1.1 On 1<sup>st</sup> April 2013 the *Public Sector Internal Audit Standards (PSIAS, the Standards)* were formally adopted in respect of local government across the United Kingdom. The *PSIAS* apply to all internal audit providers, whether in-house, shared services or outsourced. The *PSIAS* were revised from 1<sup>st</sup> April 2016, to incorporate the *Mission of Internal Audit* and *Core Principles for the Professional Practice of internal Auditing*.
- 1.2 The *Accounts and Audit Regulations 2015 Section 5*, define the requirement for an internal audit function within local government, stating that:
- A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, and taking into account public sector internal auditing standards or guidance*
- 1.3 The responsibility for maintaining an adequate and effective system of internal audit within Test Valley Borough Council lies with the Head of Finance & Revenues (Section 151 Officer).
- 1.4 The Internal Audit Manager is responsible for effectively managing the internal audit activity, in accordance with the definition of internal auditing, the *Code of Ethics* and the *Standards*.
- 1.5 In accordance with the *PSIAS* the definition of internal auditing is:
- Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's 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.*
- 1.6 In addition the Internal Audit Manager will provide an Annual Internal Audit Opinion, based on an objective assessment of the Authority's framework of governance, risk management and control.

**1.7** The Annual Internal Audit Opinion must incorporate:

- The Opinion;
- A summary of the work that supports the Opinion; and
- A statement on conformance with PSIAS and the results of the quality assurance and improvement programme.

**1.8** An annual self-assessment is carried out, as part of PSIAS. The assessment for 2022/23 confirmed that Test Valley Borough Council's, Internal Audit Service is compliant with requirements.

### Statement of Organisational Independence

**1.9** The Internal Audit Team has no operational responsibilities for any financial systems, including system development and installation. The Internal Audit Manager does however facilitate the Council's risk management arrangements and the team provides advice on control implementation and risk mitigation for major projects.

**1.10** The Internal Audit Manager is free from interference, although has due regard for the Authority's key objectives and risks and consults with Members and Officers charged with governance, when setting the priorities of the annual audit plan, for example; in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be and is no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.

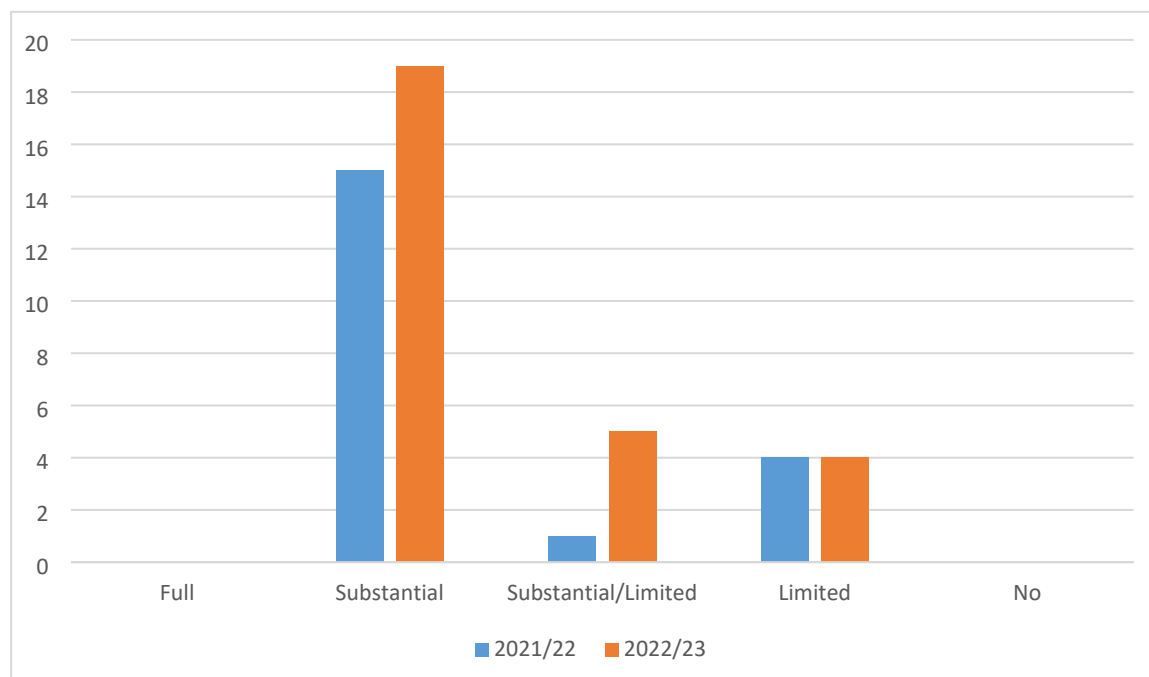
**1.11** The Internal Audit Section has free and unfettered access to the Section 151 Officer, Chief Executive, Monitoring Officer, Leader of the Council and the Chair of the Audit Committee.

## 2. Annual Opinion for 2022/23

- 2.1 Four audit opinion levels are in place and these are: no assurance, limited assurance, substantial assurance and full assurance. Where there are mainly medium or low risk exceptions the annual audit opinion would be substantial or full assurance. Substantial Assurance is provided for this year.

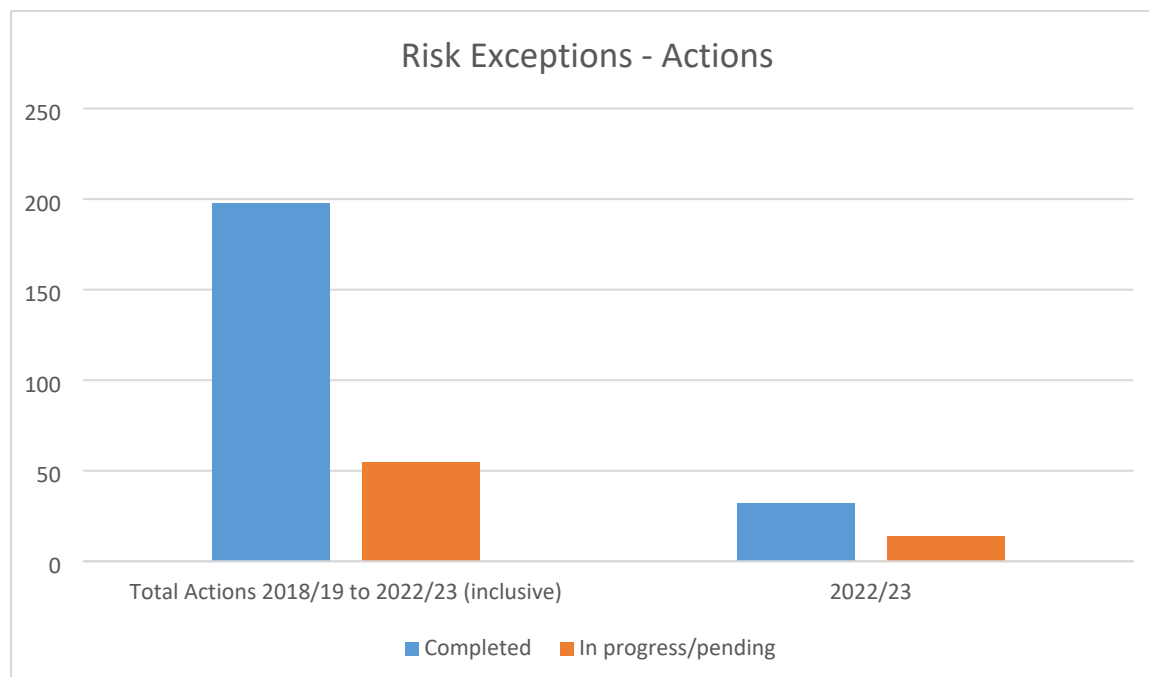
No Assurance	Limited Assurance	Substantial Assurance	Full Assurance
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- 2.2 During 2022-23 Internal Audit undertook 28 full audits and 2 follow up reviews. The results, as displayed in the table below show that, for those audits given an opinion there were no audited areas given a 'No Assurance' opinion which was the same as last year. There were 9 audited areas given a 'Limited' or split "Limited/Substantial opinion which is an increase on last year and 19 audits received a "Substantial" assurance opinion. As a whole 'Substantial Assurance' has been attributed indicating that the governance framework is effective.
- 2.3 Any significant corporate weaknesses and agreed actions are considered for inclusion in the Annual Governance Statement and reflected in its action plan. Where the impact of Internal Audit work may affect that year's work for External Audit i.e. where they consider there are weaknesses in control that could materially affect the accounts, they may need to carry out further work to gain the necessary audit assurance required for a true and fair view of the financial position and compliance with professional codes of practice.



### 3. Risk Exceptions - Actions

- 3.1** In terms of the number of actions which have reached or passed their original target date for implementation the position as at 31/03/23 is shown in the table below. There is one “High” risk exception to report which relates to the provision of procurement training. The overall position for 2022/23 shows that 32 (70%) of actions raised during the year have been closed with 14 (30%) remaining open, pending and or are in progress. An analysis of the total live actions for 2022/23 and previous years shows 198 (78%) having been closed and 55 (22%) remaining open. This position needs to be monitored to continue to manage risk exposure effectively and retain the overall assurance opinion. Service Performance Boards will be updated on a quarterly basis with all open risk exposures.
- 3.2** During 2022/23 Internal Audit carried out 2 six monthly follow-up reviews on all open risk exceptions. While progress implementing actions is maintained there are areas where actions are not fully implemented at the point of follow-up. Consequently, to ensure all actions are fully implemented, Internal Audit will continue the approach established in prior years, with 2 follow-ups reviews.



## 4. Contingencies and Ongoing Activities

**4.1** The Audit Plan for 2022/23 included time spent on ongoing activities including advice and assurance on internal control processes and major projects and contingency provision for special investigations, specific S151 requests and other fraud awareness and reactive work.

### 4.2 Special Investigations

Two special investigations were undertaken during 2022/23. These related to:

- Procurement of commemorative statues resulting in a confidential report to the Audit Committee
- Procurement of VMWare Server replacement which led to lessons learned but no formal report.

There have been no incidents of fraud and/or corruption to report for 2022/23

### 4.3 S151 Requests

Two pieces of work were carried out during 2022/23 under the provision for requests from the S151 Officer. These included post assurance work on the £150 energy payments scheme and use of Purchasing Cards. Reports were produced and summaries reported to the Audit Committee.

### 4.4 Fraud Awareness and NFI

The Council does not have a dedicated Counter Fraud Team. Fraud checks are however incorporated into the individual audit reviews. The Council's Anti-Fraud and Corruption Policy was reviewed in 2022/23 and presented to the Audit Committee. Anti-fraud and Anti-bribery awareness training and promotion was commenced during 2022/23 and is continuing in 2023/24.

Internal Audit facilitate the management and administration of the Council's participation in the National Fraud Initiative (NFI) which is a mandatory scheme run by the Cabinet Office in which multiple data sets are uploaded and analysed. The results are then presented back to the Council for investigation. NFI does not run-in financial years but spans a period of 18 months. The data matches for the latest 2022/23 exercise were released in February 2023.



### 4.5 Advice and Assurance

Internal Audit gave 11 items of advice across varying council services on risk and control throughout 2022/23.

### 4.6 Project Assurance

Internal Audit provided a project assurance role on 12 projects during 2022/23. Those where more than 1 day was spent in total included:

- Andover and Romsey Town Centre Regeneration
- Financial Management System
- Office 365 migration
- New and agile ways of working
- Telephony System

## 5. Quality Assurance

**5.1** As part of the *Public Sector Internal Audit Standards* the Internal Audit Manager is required to maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. This QAIP must include both internal and external assessments.

In addition to this, quality and improvement requirements are assessed by means of:

- Sign off by the Internal Audit Manager of all key stages of an audit, for example the scope of work and level of testing to be performed, the conclusion of the work and opinion formed followed by a review of the draft and final reports.
- Weekly Progress meetings with the Audit Team.
- Monthly 1-2-1s with all members of staff within the Audit Team.
- Annual performance reviews of all staff, including the identification and provision of training. The majority of training needs are provided by a combination of external professional studies, supported by in-house provision and mentoring.

- All staff are currently undertaking professional training. The Internal Audit Manager is professionally qualified (CMIIA) and is required to maintain Continuous Professional Development.
- All staff complete an annual declaration of interests including a nil return, to avoid any impingement on independence or conflict of interest.
- Feedback has been received during 2022/23 from Senior Management which supported the quality assurance assessment reflecting that the service provided complies with PSIAS criteria.

## **6. Public Sector Internal Audit Standards**

- 6.1** Under the *Public Sector Internal Audit Standards (PSIAS, the Standards)* *Standard 1310* requires that, as part of the quality assurance and improvement programme internal and external assessments (of conformance with the *PSIAS*) must be undertaken. *Standard 1311* allows for periodic self-assessments, which have been carried out each year and the results reported to the Audit Committee annually alongside the annual audit opinion.
- 6.2** *Standard 1312* requires that an external assessment must be conducted at least once every five years by a qualified, independent assessor from outside the organisation. An independent assessor means someone not having an actual or perceived conflict of interest and not being part of, or under the control of, the organisation to which the internal audit activity belongs. An external assessment was last undertaken in March 2019 with the next due in March 2024.