

# The Annual Internal Audit Report 2018-19

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

## Recommended:

1. That the work performed by the internal audit team over the previous year (April 2018 - March 2019) be endorsed.
2. That the results of the External Public Sector Internal Audit Standards (PSIAS) assessment be accepted and progress on the Action plan to address the areas of non-conformance identified, as shown in Annex A, be endorsed.

### SUMMARY:

This report provides:

- An overview of the internal audit work covering the financial year 2018-19.
- The results of an External Assessment of conformance with the Public Sector Internal Audit Standards.

## 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 five Audit Panel meetings:

- 11<sup>th</sup> June 2018
- 25<sup>th</sup> July 2018
- 3rd September 2018
- 10<sup>th</sup> December 2018
- 11<sup>th</sup> March 2019

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

2.1 Throughout the year an internal audit monitoring statement for the period was provided to Members of the Audit Panel. In addition, other reports to the Panel, covered statutory reports from External Audit and a paper in respect of the draft annual governance statement.

2.3 The overall opinion of the Shared Internal Audit Partnership Manager (as reported to the July 2019 Audit Panel meeting) is that a **substantial level of assurance** can be given that there is a generally sound system of internal control, designed to meet the Council’s objectives, and that controls are being applied consistently.

2.4 This opinion was qualified as a result of an external assessment of conformance with the Public Sector Internal Audit Standards (PSIAS) which highlighted 8 areas of non-compliance as they impact upon the Annual Audit Opinion in the following ways:

- Assurance mapping has not occurred and therefore the opinion is based solely on the Internal Audit work.
- The Interim Shared Internal Audit Manager has been unable to provide assurance that a strategic framework is in place to deliver an effective Internal Audit Service
- He has also been unable to confirm whether appropriate resources have been allocated to provide the level of Internal Audit review needed for this Authority.
- Concerns were raised regarding the completeness and methodology of the Audit Universe. It has therefore not been possible to place assurance that the composition of the 2018/19 Audit Plan was sufficiently risk based and therefore contained sufficient scope of the Authority’s key risks.

Paragraph 3 of this report provides further detail on the assessment with the action plan to address these areas shown in Annex A.

2.5 The assurance opinions relating to the 27 audits (where an opinion had been given) are summarised as follows:

Opinion	Number	Percentage
Full Assurance	9	33%
Substantial Assurance	15	56%
Limited Assurance	3	11%

The Audits that received a limited opinion were as follows:

- Officer Expenses
- Lone Working
- Inventories

- 2.4 79% (30 of the 38 programmed audits) of the original audit plan was delivered to final or draft report stage against a target of 95%. A further 8% (3 audits) were in progress. 10.5% (4) of the programmed audits have been deferred to the 2019/20 Audit Plan and 1 audit (2.5%) was removed from the plan as approved by the Audit Panel in March 2019. Therefore, after revising the audit plan the team delivered **91%** (30 of the amended target 33 audits).
- 2.5 The team achieved 77.5% productive time against a target of 90% for the period 1 April 2018 to 31 March 2019. The below target productive rate reflects the reduced in-house resource availability predominantly the long term absence of the Shared Internal Audit Partnership Manager since September and recruitment to the Senior Auditor role. However with external support (within the existing budget) a significant amount of the audit plan was delivered. This additional support was concentrated in the core work which was completed on time to ensure the Council could complete its financial statements and supporting documents.
- 2.6 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 31/03/19. The results as at 30<sup>th</sup> June 2019 are summarised in the table and narrative below:

<b>Audit Actions:</b>	<b>Risk:</b>	<b>Total:</b>	<b>Complete:</b>	<b>In Progress:</b>	<b>Pending:</b>
<b>2017-18</b>	High	1	1 (100%)	0 (0%)	0 (0%)
	Med/Low	70	47 (67%)	18 (25.5%)	5 (7.5%)
<b>2018-19</b>	High	0	0 (0%)	0 (0%)	0 (0%)
	Med/Low	31	21 (67.5%)	6 (19.5%)	4 (13%)
<b>Grand Total</b>		102	69	24	9

- 2.7 23 actions arising from the 2017-18 audit reviews remained in progress or had slipped. None were high risk. 3 actions have since been addressed. The remaining actions include:
  - (a) Asset Management audit (2 actions) -. These refer to the introduction of a rolling programme of property surveys and review of procedures for the inspection and appraisal of mechanical and electrical installations.
  - (b) Bank charges (1 action) - which relates to the comparison of annual bank charges to the previous 3 years for management review.
  - (c) Cloud Security & Cyber threats (2 actions) – These relate to the provision of business continuity plans for hosted services and staff training and awareness on cyber threats.

- (d) Emergency Planning (4 actions) – These refer to training and awareness, sharing of personal information, review of control centre inventories and agreement of a set up plan (IT and telephone)for the secondary site.
- (e) Performance Management (2 actions) – These include the review of Service Performance Indicators and feasibility/benefits of utilising partnerships to explore and measure impacts at a place based level.
- (f) Pest Control (1 action) – which refers to introduction of a statement of responsibilities for the use of a Council vehicle.
- (g) Postage (1 action) – which relates to the completion of a contract for the electoral registration postage.
- (h) Programme & Project Management (3 actions) – These relate to the development of project management training and an overview of corporate projects by Officers Management Team.
- (i) Tree Management (1 action) – relates to the review of the Council’s approach to the adoption of public open spaces
- (j) Valley Housing (3 actions) – These refer to the preparation and introduction of a formal recharge policy between Valley Housing and the Council, monitoring of the risks around segregation of duties and assurance of the company’s compliance with the Council’s policies and procedures.

2.8 10 actions arising from the 2018-19 audit reviews were in progress or had slipped. None were high risk. 4 have subsequently been completed. The remaining actions include:

- (a) CCTV (4 actions). These refer to replacement of aging CCTV, situation of CCTV computer (FMC), updating of procedures in respect of subject access requests and retendering of the alarm servicing contract.
- (b) Inventories (1 action) – which refers to the updating and consistent maintenance of equipment inventories.
- (c) Members Expenses (1 action) - which refers to information and document search facilities on the Council’s website.

### **3 Compliance with Public Sector Internal Audit Standards**

3.1 On 1<sup>st</sup> April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted in respect of Local Government across the UK. As part of the standards, Internal Audit service providers are required to undertake annual self-assessments of the conformance with the standards and also commission

an external assessment every 5 years. As the standards were introduced in 2013, the Authority was due an external assessment in 2018/19. In agreement with the s151 Officer, an external assessment of Test Valley Borough Council's compliance with PSIAS was commissioned and undertaken in April 2019.

- 3.2 Of the 50 Standards and Elements one is not applicable and:
    - 38 were evaluated as generally conform
    - 3 as partially conform;
    - 8 as non-conform;
  - 3.3 The full report produced by the external assessor was shared with the Audit Panel and discussed at its meeting on 25<sup>th</sup> July 2019. Annex A is the action plan produced to ensure that the Council conforms to the standards together with progress made to date on each action.
  - 3.4 The findings identified key gaps within the strategic framework and management of the internal audit team. These key areas can be summarised as; the Audit Planning & Universe, Audit Strategy & Charter, Audit Manual and Quality Assurance & Improvement Programme.
  - 3.5 Given that the main areas of non-conformance were in relation to the strategic management of the internal audit service, the actions identified will require some time to be introduced while ensuring they do not fundamentally affect the current service provision provided by the internal audit service.
  - 3.6 Actions identified within the assessment that are able to be progressed in the short term have been completed and/or started. These are outlined in the attached Annex A.
  - 3.7 While non-conformance was noted in significant areas, the assessor did note the positive impact the Internal Audit team has on the organisation and the value placed on it by the Officers interviewed/consulted. In addition, three areas of good practice were noted in relation to Risk Management, Corporate Performance Management and individual Audit Assignment Reporting.
- Annual Audit Opinion 2019/20:*
- 3.8 It is anticipated that the only note that will accompany the 2019/20 Audit Opinion will be in regards to the composition of the audit universe and audit plan for 2019/20. Due to the timing of the assessment, 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 as interim Shared Internal Audit Manager, it will not be possible in the 2019/20 Audit Opinion to confirm that the Authority produced an audit plan which encompassed the key risks facing the council. However, by way of mitigation to this, the key fundamental system audits (Council Tax, Payroll, Creditors and Debtors) will be conducted under the proposed new Risk based Auditing model. Therefore, confidence will be placed that the main financial audits of the Council will incorporate a robust risk assessment to ensure the scope is adequate in determining the risks associated with those activities.

## **4 Corporate Objectives and Priorities**

- 4.1 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.

## **5 Consultation/Communications**

- 5.1 The Internal Audit Plan for 2018/19 involved full consultation with senior management, the Council's External Auditors and the Audit Panel.

## **6 Options**

- 6.1 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.
- 6.2 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.

## **7 Risk Management**

- 7.1 The annual audit plan 2018/19 was based on the Council's risk registers and Internal Audit contributes towards the overall corporate governance framework of assurance.

## **8 Resource Implications**

- 8.1 The Audit Plan for 2018/19 was based on **3.0 full time** equivalent auditors employed by Test Valley Borough Council and **0.4 full time** of an Audit Manager's time provided in partnership with Gosport Borough Council. However due to the current sickness of the Internal Audit Partnership Manager, only strategic support can be provided by the Interim Shared Internal Audit Partnership Manager.
- 8.2 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.

## **9 Equality Issues**

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

## 10 Conclusion

- 10.1 This report outlines the work undertaken by Internal Audit from 1 April 2018 to 31 March 2019 and the overall performance in delivery of the 2018-19 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:	1		
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