

Internal Audit Activity Progress Report

2021/22



Audit and Standards Committee
30 November 2021



Agenda Item 6
Appendix A

(1) Introduction

All Councils must make proper provision for Internal Audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that a relevant authority 'must undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

The Council's Internal Audit service is provided by Audit Risk Assurance (ARA) under a Shared Service agreement between Stroud District Council, Gloucester City Council and Gloucestershire County Council. ARA carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.

The guidance accompanying the Regulations recognises the Public Sector Internal Audit Standards 2017 (PSIAS) as representing 'proper Internal Audit practices'. The standards define the way in which the Internal Audit service should be established and undertake its operations.

The Internal Audit service is delivered in conformance with the International Standards for the Professional Practice of Internal Auditing.

(2) Responsibilities

Management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non financial) and governance arrangements.

Internal Audit plays a key role in providing independent assurance and advising the Council that these arrangements are in place and operating effectively.

Internal Audit is not the only source of assurance for the Council. There are a range of external audit and inspection agencies as well as management processes which also provide assurance. These are set out in the Council's Code of Corporate Governance and its Annual Governance Statement.

(3) Purpose of this Report

One of the key requirements of the PSIAS is that the Head of ARA should provide progress reports on Internal Audit activity to those charged with governance. This report summarises:

- I. The progress against the 2021/22 Risk Based Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- II. The outcomes of the 2021/22 Internal Audit activity delivered during the period September 2021 to October 2021; and

III. Special investigations/counter fraud activity.

(4) Progress against the 2021/22 Internal Audit Plan, including the assurance opinions on risk and control

The schedule provided at **Attachment 1** provides the summary of 2021/22 activities which have not previously been reported to the Audit and Standards Committee.

The schedule provided at **Attachment 2** contains a list of all of the 2021/22 Internal Audit Plan activity undertaken during the financial year to date. This includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activity outcomes have been presented to the Audit and Standards Committee.

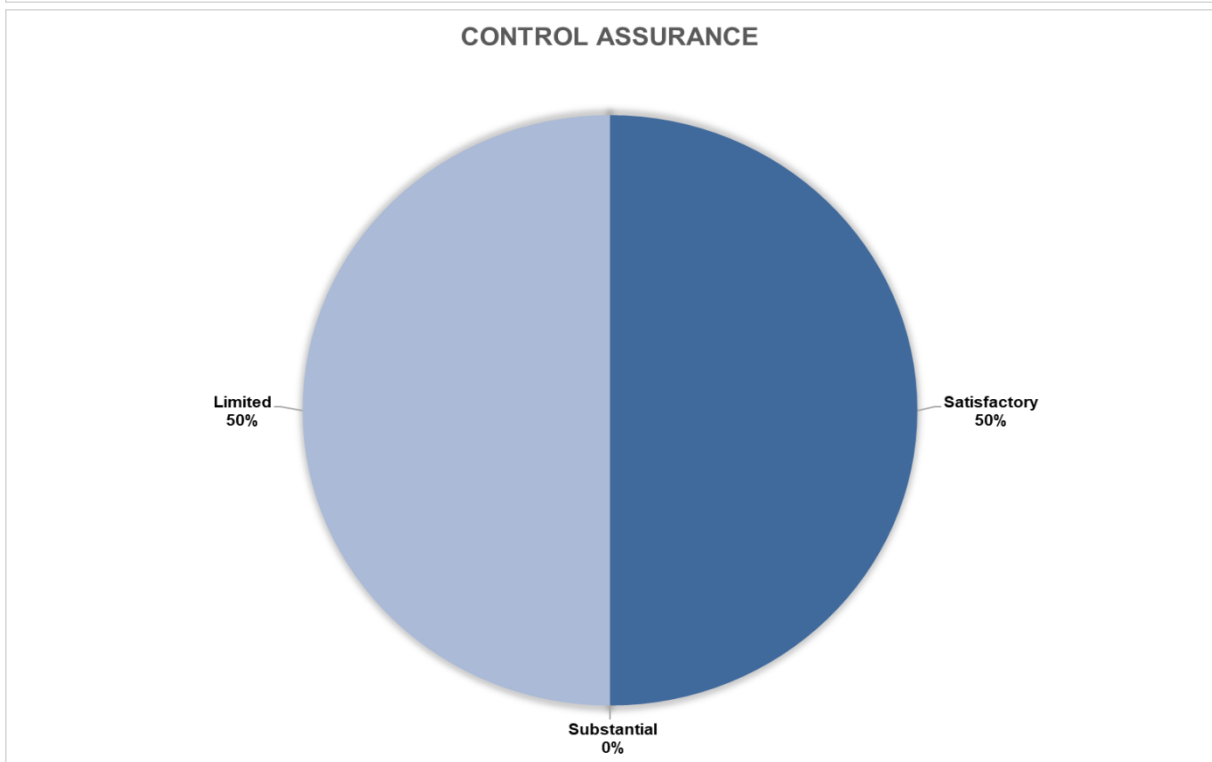
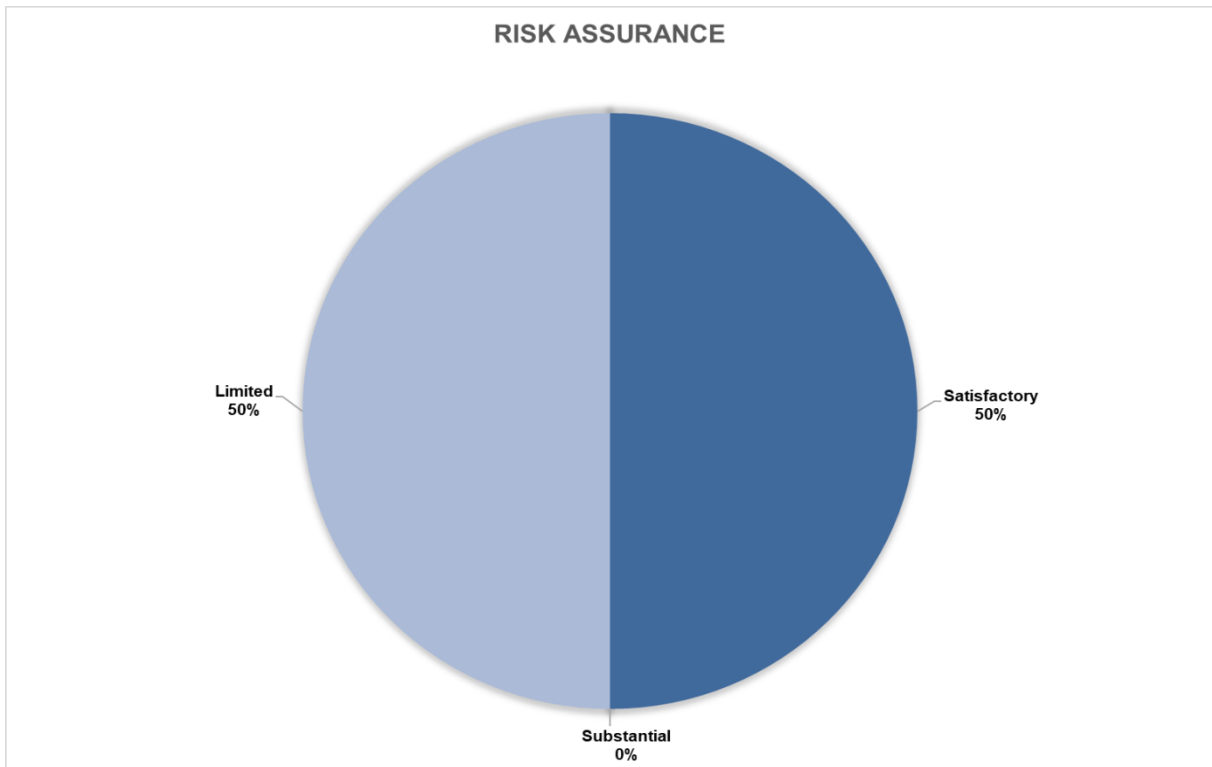
Explanations of the meaning of the assurance opinions are shown below.

(4a) Summary of Internal Audit Assurance Opinions on Risk and Control

The below pie charts show the summary of the risk and control assurance opinions provided in relation to the 2021/22 audit activity undertaken from April up to October 2021.

It is noted that the majority of ARA activity delivered to October 2021 has not generated an audit opinion, due to being a grant or consultancy review. This position has impacted the below pie chart content.

Assurance Levels	Risk Identification Maturity	Control Environment
Substantial	<p>Risk Managed Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, customer/partners, and staff. All key risks are accurately reported and monitored in line with the Council’s Risk Management Policy.</p>	<ul style="list-style-type: none"> • System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved. • Control Application – Controls are applied continuously or with minor lapses.
Satisfactory	<p>Risk Aware Service area has an awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, customer/partners, and staff. However some key risks are not being accurately reported and monitored in line with the Council’s Risk Management Policy.</p>	<ul style="list-style-type: none"> • System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger. • Control Application – Controls are applied but with some lapses.
Limited	<p>Risk Naïve Due to an absence of accurate and regular reporting and monitoring of the key risks in line with the Council’s Risk Management Policy, the service area has not demonstrated a satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, customer / partners and staff.</p>	<ul style="list-style-type: none"> • System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls. • Control Application – Significant breakdown in the application of control.



(4b) Limited Control Assurance Opinions

Where audit activities record that a limited assurance opinion on control has been provided, the Audit and Standards Committee may request Senior Management attendance to the next meeting of the Committee to provide an update as to their actions taken to address the risks and associated recommendations identified by Internal Audit.

(4c) Audit Activity where a Limited Assurance Opinion has been provided on Control

During the period September 2021 to October 2021, no limited assurance opinions on control have been provided on completed audits from the 2021/22 Internal Audit Plan.

(4d) Satisfactory Control Assurance Opinions

Where audit activities record that a satisfactory assurance opinion on control has been provided and recommendations have been made to reflect some improvements in control, the Committee can take assurance that improvement actions have been agreed with management to address these.

(4e) Internal Audit Recommendations

During the period September 2021 to October 2021, Internal Audit made a total of **23** recommendations to improve the control environment. **Six** of which were high priority and **17** which were medium priority recommendations. 100% of the recommendations have been accepted by management.

The Committee can take assurance that all high priority recommendations will remain under review by Internal Audit, by obtaining regular management updates, until the required action has been fully completed.

(4f) Risk Assurance Opinions

During the period September 2021 to October 2021, no limited assurance opinions on risk have been provided on completed audits from the 2021/22 Internal Audit Plan.

Monitoring of the implementation of recommendations to manage the risks identified is owned by the relevant manager(s) and helps to further embed risk management in to the day to day management, risk monitoring and reporting process.

(4g) Internal Audit Plan 2021/22 – Update

Members approved the Internal Audit Plan 2021/22 at the 27th April 2021 Audit and Standards Committee meeting. Since that point, and as detailed on **Attachment 2**, three new activities have been added to the Internal Audit Plan 2021/22 based on risk position and need (such as new mandatory grant certification work).

The approved new activities include the Senior Leadership Team (SLT) and Member requested Planning Review (Enforcement), which was confirmed as a priority for ARA delivery. This activity is reported at **Appendix B** and has required significant ARA input, due to the breadth of review (including consultation) and audit testing.

Based on the above position, SLT reviewed the Internal Audit Plan 2021/22 in October 2021 to ensure a balanced and viable Plan.

The outcomes of this review are confirmed on **Attachment 2** and propose deferral of a number of activities from the Internal Audit Plan 2021/22, based on the completion of up to date risk assessment per activity and confirmation of their priority. The deferred activities will be considered as part of the 2022/23 risk-based audit planning exercise.

Completed 2021/22 Internal Audit Activity during the period September 2021 to October 2021

Full ARA activity reports

As agreed with Audit and Standards Committee, two full ARA reports are also presented in relation to the following concluded activities:

- I. **Appendix B** – Planning Review (Enforcement); and
- II. **Appendix C** – Planning Applications.

Summary of Consulting Activity, Grant Certification and/or Support Delivered where no Opinions are provided

Service Area: Resources

Audit Activity: Grant Certification – Green Homes Grant Local Authority Delivery Scheme (GHG LADS) Phase 1a

Background

In July 2020, the Chancellor of the Exchequer announced that £2 billion of support would be made available through the Green Homes Grant (GHG) to help households save money, cut carbon emissions and to create green jobs. The GHG is comprised of £1.5 billion of support through energy efficiency vouchers and £500m of support allocated to English Local Authority delivery partners, through the Local Authority Delivery Scheme (LADS).

The Gloucestershire and South Gloucestershire Warm and Well Scheme has been instrumental in the delivery of the Fuel Poverty Strategy. Their work involves targeting the vulnerable, integrating with the National Health Service (NHS), and improving Energy Performance Certificate (EPC) ratings. All works are delivered by Severn Wye Energy Agency (SWEA), the key delivery partner under the Warm and Well Scheme.

Stroud District Council (the Council), as the lead Council partner in the Warm and Well Scheme, was successful in securing £1,094,050 of the GHG LADS Phase 1a grant funding. This funding was initially allocated to installing external wall insulation (EWI) to 100 park homes and 50 air-source heat pumps (ASHPs) to properties in off-gas areas across Gloucestershire and South Gloucestershire. Due to low demand for ASHPs, most funded-works completed as part of Phase 1a were insulation-related. As of 31st August 2021 (the end date for Phase 1a), 102 EWIs and 10 ASHPs were installed. The total spend to deliver these was £898,902. Unspent monies have been returned.

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The Council has also secured £1,034,303 as part of GHG LADS Phase 1b, designated for the installation of EWI in 100 park homes across Gloucestershire and South Gloucestershire. Works are ongoing and the deadline for delivery of Phase 1b has been extended to 31st March 2022.

Scope

Internal Audit sought to determine whether GHG LADS Phase 1a had been administered in line with the grant conditions. Internal Audit undertook a series of checks in order to support the grant declaration requirements set out within the Grant Determination Letter.

The objective of this review was to be able to provide the following declaration in support of the Council's grant expenditure(s) – "To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to GREEN HOMES GRANT: LOCAL AUTHORITY DELIVERY GRANT DETERMINATION (2020): No 31/5187 have been complied with."

Key Findings

- I. During the engagement planning phase, it was identified that SWEA's approach to due diligence checking (of applicants) differed from that employed by other entities delivering GHG LADS 1a. That is, documentary evidence was not obtained or retained in support of applicant eligibility.
- II. Applications were obtained via targeted canvassing at park home sites, supported by data produced by the NHS (the Gloucestershire Clinical Commissioning Group). Eligibility was assessed via completed Application Forms (which included a Self-Declaration). Therefore, the pool of applicants was generally chosen by SWEA themselves, a form of "soft sifting".
- III. The approach taken by other entities delivering GHG LADS 1a was to open applications up on a website and receive completed applications and supporting evidence (for example, bank statements and P60s) via this portal. SWEA experience in delivering the Warm and Well Scheme was that the portal approach would have deterred and disadvantaged the intended targets of the funding (older individuals, those with challenging socio-economic circumstances and the digitally-excluded). SWEA were not in a position to roll-out a portal approach at the time of mobilisation (October 2020).
- IV. A consideration of audit requirements did not factor into the initial planning and mobilisation stages. This is understandable, given the pace of the mobilisation stage. It is worth noting that, due to SWEA delivering similar work to that being funded by GHG LADS 1a, the approach for this grant

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was based on that. This may explain the early lack of clarity over the differing requirements and expectations for this type of funding.

- V. The lack of documentary evidence retained in support of client eligibility posed an issue in terms of the assurance that Internal Audit could provide over grant administration. SWEA, with Internal Audit's input, was able to devise and implement a retrospective Verification Check for a sample of clients with installed measures (EWIs and ASHPs). For the sample reviewed, Internal Audit found no instances where a client was ineligible for funding under the GHG LADS 1a. There were some refusals (and non-engagement) where a Verification Check was requested, but this was anticipated and has not impacted upon ARA's ability to recommend grant sign-off.

Conclusion

Internal Audit is not providing a formal assurance opinion as part of this activity. The work undertaken by Internal Audit was to enable the necessary sign-off for grant certification purposes, and a recommendation has only been raised to address a control gap across the wider Council. This will allow the Council to manage the newly-identified risk that has emerged from this grant work. The Verification Check provided reasonable assurance over applicant eligibility. SWEA have responded positively to the support provided by Internal Audit as part of this review.

Internal Audit is satisfied that the conditions attached to the grant have been complied with, as per the Grant Determination Letter and the Memorandum of Understanding. The Project Closure Letter has been completed and returned to the Department for Business, Energy, and Industrial Strategy (BEIS).

Management Actions

Management have responded positively to the recommendation made. This recommendation involved the preparation of corporate guidance and the inclusion of a new risk within the Strategic Risk Register. The target date for implementation is 31st January 2022.

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Summary of Special Investigations/Counter Fraud Activities

Current Status

The Counter Fraud Team (CFT) within Internal Audit has received two referrals in 2021/22 to date. In addition, the CFT continues to work on one case brought forward from last year (Covid-19 grant related).

The two in year referrals were both Covid-19 grant related and have now been closed. Staff in the Revenue and Benefits team had identified potential anomalies with two grant applications. The CFT reviewed the applications, associated supporting paperwork and the circumstances of the two businesses. The findings of the investigations were fed back to the Revenue and Benefits team and following discussion, it was agreed that no further action was required by the CFT and the applications could continue through the approved Council process.

The case carried forward from last year remains under review and will be reported to the Audit and Standards Committee on its completion.

Any fraud alerts received by Internal Audit from the National Anti-Fraud Network (NAFN) and other credible entities are passed onto the relevant service areas within the Council, to alert staff to the potential fraud.

Since the start of the Covid-19 pandemic ARA has provided the Council with regular updates on local and national scams which seek to take advantage of the unprecedented circumstances. Risk area updates include a rise in bank mandate frauds, inflated claims, duplicate payments and the submission of fraudulent Covid-19 grant applications. This area of activity continues, with updates provided to the Council where relevant.



Stroud District Council is a proud supporter of International Fraud Awareness Week (IFAW). This year IFAW falls between 14th and 20th November. The aim of the week long event is to encourage everyone to proactively take steps to minimise the impact of fraud by promoting anti-fraud awareness and education. By being a supporter of the event

Stroud District Council is demonstrating its commitment to preventing and detecting fraud.

National Fraud Initiative (NFI)

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The data matches in respect of the main 2021/22 exercise were released in mid January 2021 and the matches are now available for review.

Examples of data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal

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licences to supply alcohol. Not all matches are always investigated but where possible, all recommended matches are reviewed by either Internal Audit, the appropriate service area within the Council or by procuring the services of the Counter Fraud Unit (CFU).

ARA has been advised that the CFU have been employed to undertake some of the match reviews on behalf of the Council. The CFU findings will be separately reported to the Audit and Standards Committee.

Due to the additional government funding made available during the Covid-19 pandemic, additional NFI matches (associated with the payments of the various government grants) have been made available and these continue to be released for review throughout the year. The CFT have offered assistance in reviewing some of these matches.

Data relating to Council Tax Single Person Discount is due to be uploaded between 28th November 2021 and 28th January 2022. Once uploaded any data matches will be available for review.