

Internal Audit Activity Progress Report

2021/22



(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 Council '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 November 2021 to December 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. The dates where a summary of the activity outcomes have been presented to the Audit and Standards Committee are also reflected.

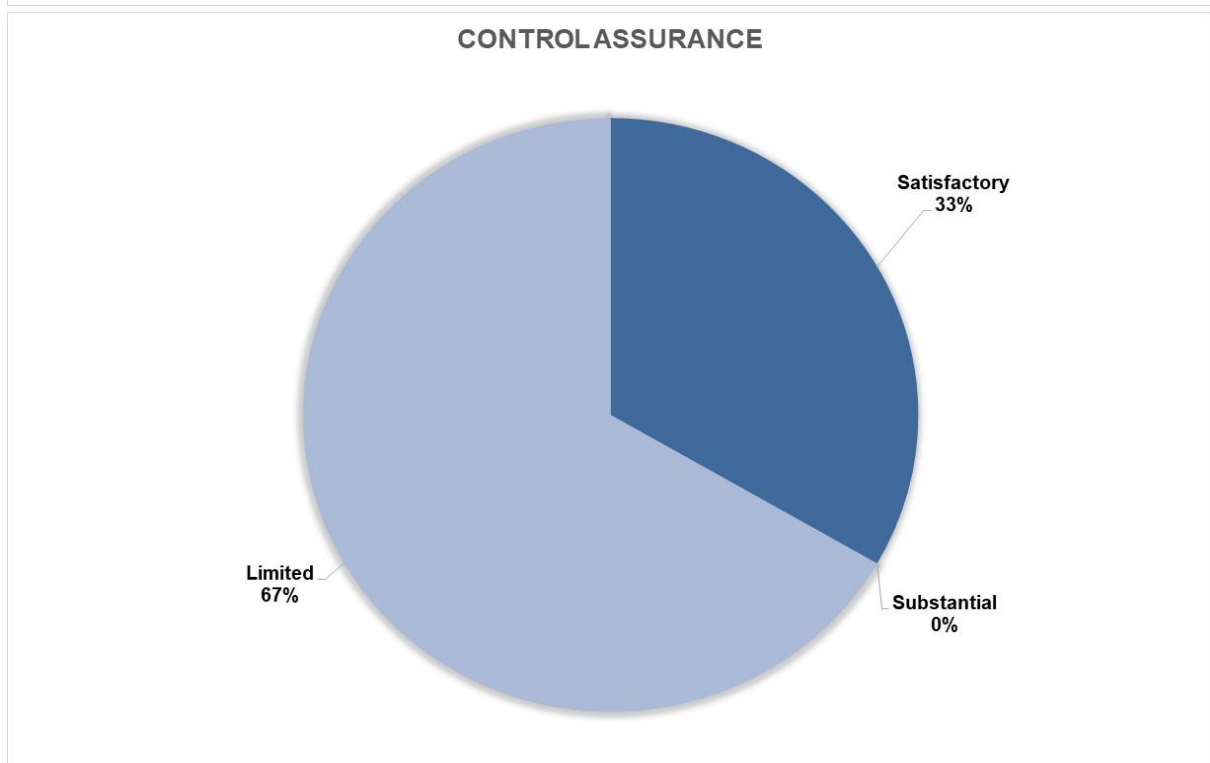
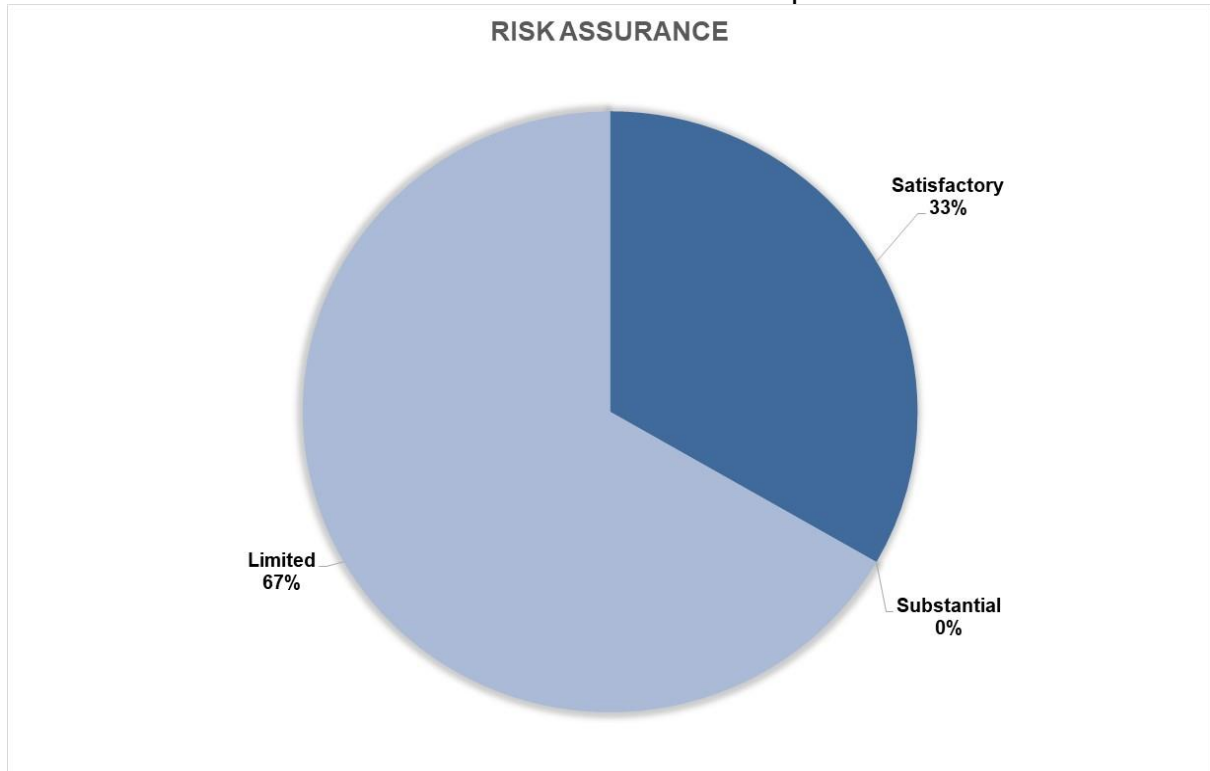
Explanations of the meaning of the assurance opinions are shown below.

| Assurance Levels | Risk Identification Maturity | Control Environment |
|-------------------------|--|---|
| Substantial | 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, customers, partners, and staff. All key risks are accurately reported and monitored in line with the Council's Risk Management Policy. | <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 | 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, customers, partners and staff. However, some key risks are not being accurately reported and monitored in line with the Council's Risk Management Policy. | <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 | 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, customers, partners and staff. | <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. |

(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 2021 up to December 2021.

It is noted that the majority of ARA activity delivered to December 2021 has not generated an audit assurance opinion, due to being a grant or consultancy review. The outcomes from these areas are not included in the pie charts.



(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 November and December 2021, one limited assurance opinion on control has been provided on completed audits from the 2021/22 Internal Audit Plan which relates to Voids Management.

Where a limited assurance opinion is given, a follow up audit is undertaken to provide assurance that the agreed actions have been implemented by management.

(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 November and December 2021, Internal Audit made a total of **20** recommendations to improve the control environment. **Three** 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 November and December 2021, one limited assurance opinion on risk has been provided on completed audits from the 2021/22 Internal Audit Plan which relates to Voids Management.

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 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**, four new activities have been added to the Internal Audit Plan 2021/22 based on risk position and need (such as new mandatory grant certification and review 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. The Planning Review (Enforcement) activity outcomes were reported to Audit and Standards Committee on 30th November 2021 and required significant ARA resource 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 result was presented to Audit and Standards Committee through the Internal Audit Progress Report on 30th November 2021 and agreed.

The outcomes of the SLT review are detailed in **Attachment 2** and confirm 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.