

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 recognise 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) Changes within 2022

ARA recognise the challenges facing the Council and local government more widely, to deliver high quality services and to meet the expectations of residents and other stakeholders.

ARA are firmly committed to helping the Council and its officers to manage their risks, to deliver services and to be successful in achieving objectives.

Therefore, ARA have reviewed how we work and how we can best help the Council to meet its challenges. We have commenced a journey to initiate improvements in a number of areas and, by doing so, improve the service that we provide to the Council.

The Committee are asked to note the following changes that will take place within 2022. These include:

- i. Changing the format of ARA activity reports from January 2022. Our reports will be more focussed, concise and dynamic, clearly highlighting the areas that need to be addressed by management.
- ii. The risks identified in ARA reports will be rated using a High, Medium and Low categorisation.
- iii. The style of reporting to the Committee will also change in 2022/23. In particular, the Internal Audit Progress Report will be split into two. Firstly, the summaries of Internal Audit reports will be more concise highlighting just the salient points. Secondly the summary of Internal Audit activity will be red, amber or green (RAG) rated to show the progress of individual audits:

- Red will indicate an audit that is unlikely to be completed in-year;
 - Amber will indicate a delay to the start of an audit; and
 - Green will indicate that an audit is due to commence in the quarter stated in the Internal Audit Plan.
- iv. From April 2022, ARA will introduce Recommendation Progress Monitoring reports. These will be issued by Internal Audit ahead of the Committee, to the management responsible for implementing the recommendations. Management will then specify the progress made in implementing the recommendations, for example implemented, in progress or that more time is required.
- v. The Recommendation Progress Monitoring reports will help management and the Committee to monitor progress on recommendation implementation across the Council, and to see that Internal Audit reports are being actioned.
- vi. The Head of ARA's Annual Report, the Annual Report of the Chair of the Audit and Standards Committee, and the Annual Governance Statement will be reviewed and updated to be more focussed and concise.

(3) 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.

(4) 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 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 January to mid-March 2022; and
- iii. Special investigations/counter fraud activity.

(5) 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 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. **Attachment 2** also reflects where activity outcomes have been presented to the Audit and Standards Committee.

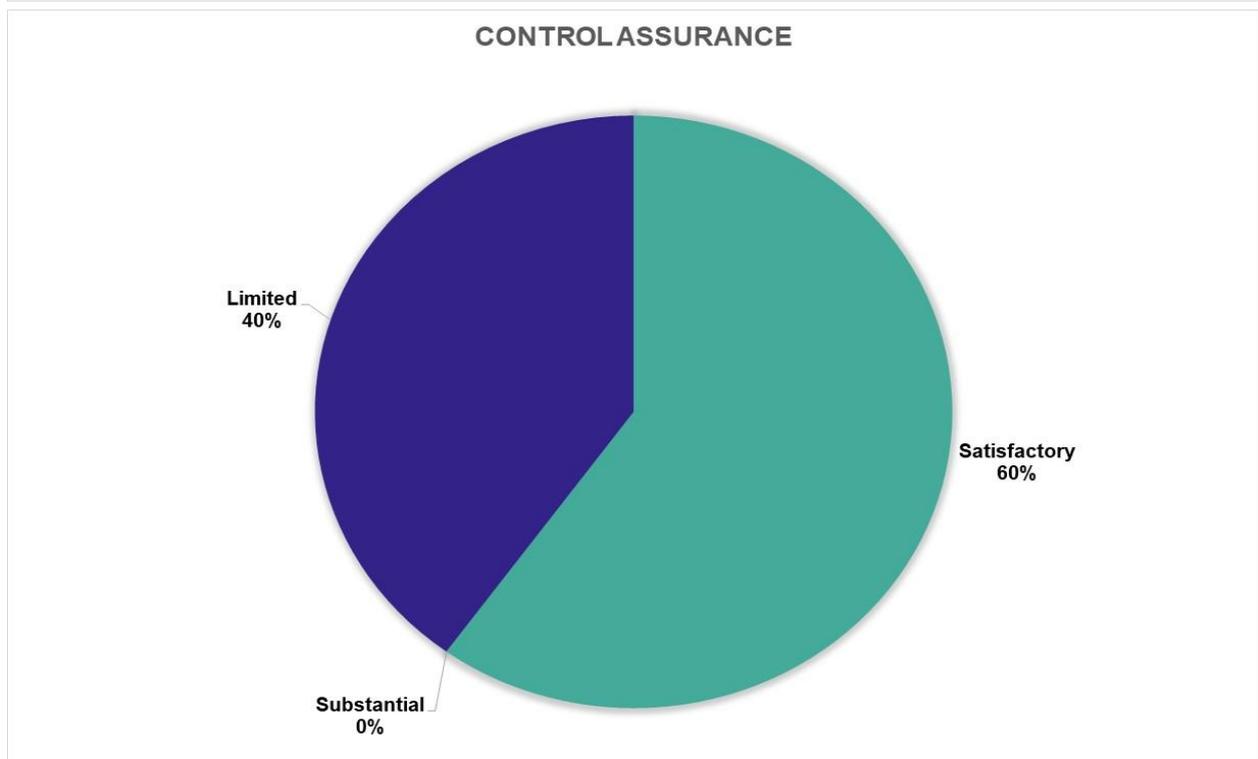
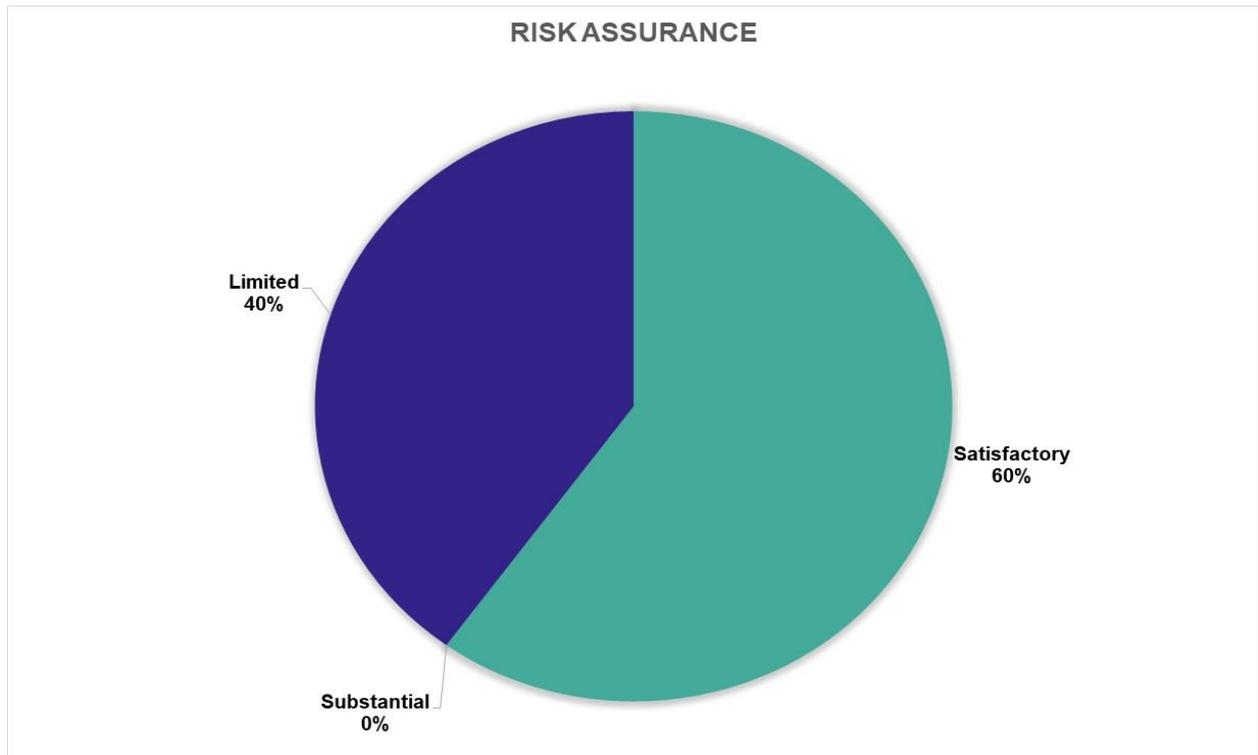
Explanations of the meaning of the assurance opinions are shown below.

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, customers, 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, customers, 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, customers, 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.

(5a) Summary of Internal Audit Assurance Opinions on Risk and Control

The pie charts below show a summary of the risk and control assurance opinions arising from the 2021/22 audit activity undertaken from April 2021 up to mid-March 2022. Five 2021/22 Internal Audit activities within this period have resulted in assurance opinions.

It is noted that the majority of ARA activity delivered to mid-March 2022 has not generated an assurance opinion, due to being a grant, consultancy review or resource support. The outcomes from these areas are not included in the pie charts.



(5b) 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.

(5c) Audit Activity where a Limited Assurance Opinion has been provided on Control

During the period January to mid-March 2022, no limited assurance opinions on control have been provided on completed audits from the 2021/22 Internal Audit Plan.

(5d) 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.

(5e) Internal Audit Recommendations

During the period January to mid-March 2022, Internal Audit made a total of **21** recommendations to improve the control environment. None of these were high priority, **11** were medium priority and **10** were low 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.

(5f) Risk Assurance Opinions

During the period January to mid-March 2022, 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 the day-to-day management, risk monitoring and reporting process.

(5g) Internal Audit Plan 2021/22 – Update

Members approved the Internal Audit Plan 2021/22 at the 27th April 2021 Audit and Standards Committee meeting.

The Internal Audit Plan 2021/22 delivers a range of ARA activity across the Council's Service areas. Activity types include:

- i. Internal Audit;

- ii. Counter fraud activity and fraud or irregularity case review;
- iii. Consultancy review or advice;
- iv. Grant certification or review; and
- v. Resource support for priority areas.

All of these activity types generate an ARA outcome or conclusion, however only the Internal Audit activity stream will result in assurance opinions on risk and control.

When compared to prior years, the Internal Audit Plan 2021/22 includes a higher level of non-assurance opinion activity. This is due to the following factors:

- i. An increased level of grants certification and review requirements, as a result of both Covid-19 and project relevant grant funding streams received by the Council;
- ii. Appropriate application of PSIAS requirements, which supports consideration and delivery of consultancy review within Internal Audit Plans; and
- iii. The changing risks and needs of the Council, evident through the Internal Audit Plan 2021/22 planning and consultation process. This has resulted in increased consultancy review and advice activities to enable agile and added value outcomes from ARA work.

The above weighting of ARA activity will impact upon the Internal Audit Progress Report **section 5** and **Appendix 2** content.

As detailed on **Attachment 2**, six new activities have been added to the Internal Audit Plan 2021/22 based on risk position and need. These include:

- i. The Senior Leadership Team (SLT) and Member requested Planning Review (Enforcement), which was confirmed as a priority for ARA delivery;
- ii. New mandatory grant certification and review work; and
- iii. Management requested consultancy activity.