

Signed off by	Interim Head of Finance
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To	Audit Committee
Date	Thursday, 10 June 2021

Key Decision Required	N
Wards Affected	(All Wards);

Subject	Internal audit - Q4 2020/21 progress report
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Recommendations
<p>(i) That the Audit Committee note the internal audit progress report contained in the annexes to this report; and,</p> <p>(ii) That the Committee make any comments and/or observations on the report to the Council's Chief Finance Officer.</p>
Reasons for Recommendations
In accordance with its constitutional responsibilities and the Council's Internal Audit Charter, the Audit Committee is required to receive regular updates on the progress of internal audit plan delivery.
Executive Summary
This report provides an update on the delivery of the 2020/21 internal audit plan as of the end of Q4 2020/21.
The Committee has the authority to approve the above recommendations.

Statutory Powers
<p>1. The requirement of an internal audit function in local government is detailed within the Accounts and Audit (England) regulations (2015), which state that authorities must: 'undertake an effective internal audit to evaluate the effectiveness of [their] 45 Agenda Item 6 risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.</p>

2. The latter standards are defined in the Public Sector Internal Audit Standards (PSIAS) which were last updated in 2017.
3. Under Section 151 of the Local Government Act (1972), the Council's Chief Financial Officer holds the statutory responsibility for the overall financial administration of the Council's affairs and is therefore responsible for maintaining an adequate and effective internal audit function.

Background

4. The Council's internal auditors are the Southern Internal Audit Partnership (SIAP).
5. The Partnership is hosted by Hampshire County Council and is comprised of a number of local authorities and other public sector organisations.
6. A professional, independent and objective internal audit service is a key element of ensuring good corporate governance.
7. The PSIAS defines internal audit as 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'.
8. The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and are operating effectively.
9. The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.
10. The Council's Chief Internal Auditor – the Head of the Southern Internal Audit Partnership – is responsible for the management of the Council's internal audit activity.
11. The Audit Committee endorsed the 2020/21 internal audit plan at its meeting on 16 July 2020.
12. The audit plan is risk based and determines the priorities of internal audit activity. Ahead of its approval by the Audit Committee the plan was fundamentally updated given the change in risk environment that the Covid-19 pandemic caused. The plan has similarly been kept under close review so as to ensure that it continues to be relevant to the Council's risk profile and to ensure an appropriate level of audit coverage.
13. Under the Council's Constitution the Committee is responsible for reviewing internal audit progress reports and monitoring delivery of the annual audit plan.
14. The attached progress report:
 - Summarises the status of 'live' audit reports (an audit is considered to be 'live' if there are outstanding management actions);
 - Provides an update on the delivery of the annual audit plan;

- Summarises internal audit performance, including assurance opinions given; and,
- Summarises any adjustments made to the audit plan.

Key Information

Q4 2020/21 progress update

15. Section 3 and 4 of SIAP's report details the overall progress in delivering the 2020/21 audit plan.
16. Section 7 of the report provides a detailed overview of the work programme for the year.
17. The following audits from the year are yet to conclude and work will carry over to 2021/22 reporting.
 - Environmental Health and Licensing
 - HR Establishment Controls
 - Information security
18. Significant work has been undertaken on these audits, however, and they will be reported to the Committee as part of subsequent progress reports once they have concluded.
19. Internal audit reviews result in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service under review. SIAP's assurance opinions are categorised as follows:

Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

20. So far this year the following audits have concluded with an assurance opinion:

Audit	Assurance opinion
Programme and project management – Marketfield Way	Substantial
Risk management	Reasonable
Health & Safety (Covid-19 response)	Reasonable
Covid-19: Small business grants	Substantial
Covid-19: Discretionary payments	Substantial
Covid-19: Emergency response and recovery	Reasonable
Covid-19: Decision making and governance	Reasonable
Cyber security	Reasonable
Housing benefits	Substantial
Financial resilience	Reasonable
Procurement	Limited
Procurement – Credit cards	Limited
Payroll	Substantial
Treasury Management	Reasonable
Homelessness	Substantial
Fleet management	Limited
Local Government Compensation Scheme	N/A
IT Disaster Recovery	Limited

21. Section 5 of the report available at annex 1 provides a summary of the key observations arising from audits that concluded with a 'limited' assurance opinion. Information is also available to the Committee in the part 2 exempt annex 2.

Management actions

22. Section 4 of the report at annex 1 provides a summary of the outstanding management actions.
23. As previously reported to the Audit Committee, the Council is prioritising efforts on the ongoing response to, and recovery from, the COVID-19 pandemic. As such, all identified management actions in section 4 of SIAP's have been given revised implementation dates from those originally identified. It is therefore expected that all actions will be concluded by Q1 2021/22 reporting.
24. Outstanding management actions will continue to be reported to the Audit Committee until their full implementation.

Amendments to the 2020/21 plan

25. Section 8 of SIAP's report at annex 1 details the changes made to the audit plan during the year.
26. The internal audit plan is risk based and determines the priorities of internal audit activity. The plan should remain fluid and kept under constant review in order to ensure that it continues to remain relevant to the Council's risk profile and to ensure an appropriate level of audit coverage.
27. The internal audit plan for 2020/21 has therefore been updated within the year to take account of new risk areas and to also ensure the most appropriate, risk-based use of resources.
28. To that end, section 8 of SIAP's report details the audits that have been deferred this year. An update on the audits deferred from the 2020/21 audit plan is provided below. The Committee considered and approved the 2021/22-2023/24 audit plan at its 11 March 2021 meeting.
 - **Working in partnership** – to be audited in 2022/23;
 - **Community safety** – to be audited in 2023/24;
 - **Business continuity and emergency planning** – the original audit scope was amended to focus on COVID-19 response and recovery, with two audits resulting 48 Agenda Item 6 (Decision making and governance and response and recovery). Emergency planning and business continuity will be audited in 2022/33;
 - **IT governance** – to be audited in Q4 2021/22;
 - **Economic prosperity** – to be audited in 2023/24;
 - **Income generation and commercialisation** – to be audited in 2022/23;
 - **Treasury management** – was originally deferred from 2020/21, however the audit took place in Q4 2020/21;
 - **Information governance** – to be audited in Q1 2021/22;
 - **Contract management** – to be audited in 2021/22; and,
 - **Payment Card Industry Data Security Standard (PCIDSS)** – to be audited in Q3 2021/22.

2021/22 audit plan

29. The 2021/22 audit plan was approved by the Audit Committee at its meeting on 11 March 2021. The Q1 2021/22 progress report will be considered by the Audit Committee in September 2021.

Options

30. The Committee has two options:

31. Option 1: note the report and make any observations and comments on its contents to the Council's Chief Finance Officer.

32. Option 2: note the report and make no observations to the Council's Chief Finance Officer.

Legal Implications

33. There are no legal implications arising from this report.

Financial Implications

34. Internal audit fees are funded through the Council's annual revenue budget.

35. There are no other financial implications arising from this report.

Equalities Implications

36. There are no equalities implications arising from this report.

Communication Implications

37. There are no communications implications arising from this report.

Risk Management Considerations

38. An effective internal audit function is an important part of effectively managing risk.

39. The Council's strategic and operational risk registers were utilised in the development of the annual internal audit plan.

40. There are no other risk management implications.

Other Implications

41. There are no other implications arising from this report..

Consultation

42. This report has been considered by the Council's Corporate Governance Group as part of its governance role.

Policy Framework

43. Internal audit makes a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all Corporate Plan Priority areas.

Background Powers

None.