

<b>Signed off by</b>	Interim Head of Finance
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<b>To</b>	Audit Committee
<b>Date</b>	Tuesday, 28 September 2021

<b>Key Decision Required</b>	N
<b>Wards Affected</b>	(All Wards);

<b>Subject</b>	Internal audit - Q1 2021/22 progress report
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<b>Recommendations</b>
<p>(i) That the Audit Committee note the Q1 2021/22 internal audit progress report available at annex 1; and,</p> <p>(ii) That the Committee make any comments and/or observations on the report to the Council's Chief Finance Officer.</p>
<b>Reasons for Recommendations</b>
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.
<b>Executive Summary</b>
This report provides an update on the delivery of the 2021/22 internal audit plan as of the end of Q1 2021/22. It also provides an update on the outstanding audit reviews from 2020/21.
<b>The Committee has the authority to approve the above recommendations.</b>

<b>Statutory Powers</b>
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’.

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 2021/22 internal audit plan in March 2021.
12. The audit plan is risk based and determines the priorities of internal audit activity. The plan is kept under close review 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

### 2020/21 audit plan

15. Two reviews remain in progress from 2020/21:
  - HR – Establishment Controls; and,
  - Environmental Health and Licensing.
16. Both reports are at draft report stage and are therefore expected to conclude shortly.

### Q1 2021/22 progress update

17. Section 3 of SIAP's report details the overall progress in delivering the 2021/22 audit plan; section 7 provides a detailed overview of the work programme for the year.
18. 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:

Opinion	Description
<b>Substantial</b>	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.
<b>Reasonable</b>	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.
<b>Limited</b>	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.
<b>No</b>	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.

19. So far this year one audit review has concluded with an assurance opinion:

Audit	Assurance opinion
Harlequin Theatre – Income, Banking and Reconciliation	Limited

20. Section 5 of SIAP’s report provides a summary of the key observations arising from the above review that concluded with a limited assurance opinion. Management actions are now being implemented in line with the agreed timescales and will address the underlying reasons for the limited assurance opinion.

### Management actions

21. Section 4 of SIAP’s report provides a summary of all outstanding management actions.
22. As previously reported to the Audit Committee, the Council is continuing to prioritise 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 report have been given revised implementation dates from those originally identified. A number of actions have been completed since the Q4 2020/21 progress report was considered by the Committee.
23. Outstanding management actions will continue to be reported to the Audit Committee until their full implementation.

### Adjustments to the 2021/22 audit plan

24. Section 8 of SIAP’s report details the amendments made to the audit plan during the year.
25. The 2021/22 audit plan approved by the Audit Committee included provision of audit days to allow for reviews relating to Covid-19. As such, two reviews have been added to the plan:
  - Covid-19 Compliance and Enforcement Grant; and,
  - Local government compensation scheme.

### Options

26. The Audit Committee has two options:
27. Option 1: note this report and make any observations and comments to the Council’s Chief Finance Officer.
28. Option 2: note the report and make no observations to the Council’s Chief Finance Officer.

<b>Legal Implications</b>
29. There are no legal implications arising from this report.
<b>Financial Implications</b>
30. Internal audit fees are funded through the Council's annual revenue budget. 31. There are no other financial implications arising from this report.
<b>Equalities Implications</b>
32. There are no equalities implications arising from this report.
<b>Communication Implications</b>
33. There are no communications implications arising from this report.
<b>Risk Management Considerations</b>
34. An effective internal audit function is an important part of effectively managing risk. 35. The Council's strategic and operational risk registers were utilised in the development of the annual internal audit plan. 36. There are no other risk management implications.
<b>Other Implications</b>
37. There are no other implications arising from this report.
<b>Consultation</b>
38. This report has been considered by the Council's Corporate Governance Group as part of its governance role.
<b>Policy Framework</b>
39. 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.
<b>Background Powers</b>
None.