

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

29 JULY 2020

8

Report Title	ANNUAL REPORT ON INTERNAL AUDIT ACTIVITY 2019/20			
Purpose of Report	To provide the Committee with an annual report on Internal Audit Activity which fully meets the Chief Internal Auditor's annual reporting requirements, as set out in the Public Sector Internal Auditing Standards (PSIAS) 2017.			
Decision(s)	<p>The Committee RESOLVES to:</p> <ul style="list-style-type: none"> a. Assess, from the findings set out in this Internal Audit Annual Report, whether it can take reasonable assurance that the internal control environment, comprising risk management, control and governance is operating effectively; b. Note that the performance of Internal Audit meets the required standards; and c. Note the Council wide counter fraud activity during 2019/20 which includes the fraud reporting requirements as mandated by the Local Government Transparency Code 2015 (paragraph ref 7b). 			
Consultation and Feedback	Internal Audit findings are discussed with Service Heads/Managers and Directors (where relevant). Management responses to recommendations are included in each activity report.			
Report Author	Theresa Mortimer Head of Audit Risk Assurance (Chief Internal Auditor) Tel: 01453 754111 Email: theresa.mortimer@stroud.gov.uk			
Options	There are no alternative options that are relevant to this matter.			
Background Papers	<p>Background papers: The CIPFA Local Government Application Note for the UK PSIAS.</p> <p>Web links to published background papers are in the covering report.</p>			
Appendices	<p>Appendix 1 and Attachment 1: Annual Report on Internal Audit Activity 2019/20 Attachment 2: Summary/Progress of Audit Activity 2019/20</p>			
Implications (details at the end of the report)	Financial	Legal	Equality	Environmental
	No	No	No	No

1.0 INTRODUCTION/BACKGROUND

- 1.1 The [Accounts and Audit Regulations 2015](#) state 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’. During 2019/20, Internal Audit work was carried out in accordance with the [Public Sector Internal Audit Standards \(PSIAS\) 2017](#) and the CIPFA Local Government Application Note for the UK PSIAS.
- 1.2 The PSIAS define 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’.
- 1.3 To achieve full effectiveness, the scope of the internal audit function should provide an unrestricted range of coverage of the organisation’s operations and the internal audit function should have sufficient authority to access such records, assets and personnel as are necessary for the proper fulfilment of responsibilities. These access rights are specified in the Internal Audit Charter and Code of Ethics, which have been approved by Members.
- 1.4 The PSIAS requires the Chief Internal Auditor to ‘provide a written report to those charged with governance timed to support the Annual Governance Statement’. The content of the report is prescribed by the PSIAS which specifically requires Internal Audit to:
- Provide an opinion on the overall adequacy and effectiveness of the organisation’s internal control environment and disclose any qualifications to that opinion, together with the reasons for the qualification;
 - Compare the actual work undertaken with the planned work, and present a summary of the audit activity undertaken from which the opinion was derived, drawing attention to any issues of particular relevance;
 - Summarise the performance of the Internal Audit function against its performance measures and targets; and
 - Comment on compliance with the PSIAS.
- 1.5 A separate report containing the Annual Governance Statement is included on the agenda for the Audit and Standards Committee on 29th July 2020.

2.0 MAIN POINTS

- 2.1 The role of the Audit Risk Assurance shared service is to examine, evaluate and provide an independent, objective opinion on the adequacy and

effectiveness of the Council's internal control environment, comprising risk management, control and governance. Where weaknesses have been identified, recommendations have been made to improve the control environment.

- 2.2 The PSIAS state that the Chief Internal Auditor should report on the outcomes of Internal Audit work, in sufficient detail, to allow the Committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address.
- 2.3 Consideration of reports from the Chief Internal Auditor on Internal Audit's performance during the year, including updates on the work of Internal Audit, is also a requirement of the [Audit and Standards Committee terms of reference](#) (approved by Full Council on 19th December 2019).
- 2.4 The **Appendix 1** Annual Report on Internal Audit Activity 2019/20 has been drafted to meet PSIAS requirements (as referred to in paragraphs 1.4 and 2.2) and comply with the Audit and Standards Committee terms of reference.
- 2.5 The Audit Risk Assurance (ARA) position against the PSIAS has also been confirmed through external independent assessment – a review that is required every five years, in addition to the requirement of an annual self assessment by the Chief Internal Auditor. The External Quality Assessment (EQA) of Internal Audit was completed by the Chartered Institute of Internal Auditors (CIIA) in May 2020. Whilst this was the first EQA of the Audit Risk Assurance Shared Service arrangement, it is noted that previous independent EQA had been completed within 2015 for the Gloucestershire County Council Internal Audit Service.

The EQA approach included validation of the Audit Risk Assurance self assessment against PSIAS, interviews with key stakeholders across the partner and client organisations, and a staff survey.

The EQA report (separately reported to 29th July 2020 Audit and Standards Committee) confirmed:

- 'The Audit Risk Assurance team meet each of the 64 Standards, as well as the Definition, Core Principles and the Code of Ethics, which form the mandatory elements of the Public Sector Internal Audit Standards (PSIAS) and the Institute of Internal Auditors' International Professional Practices Framework (IPPF), the globally recognised standard for quality in Internal Auditing.' with no formal recommendations for improvement; and
- That 'this is an excellent result and the Chief Internal Auditor and the ARA team as a whole should be justifiably proud of their service, its approach, working practices and how key stakeholders' value it.'

3.0 CONCLUSION

- 3.1 The purpose of the Annual Report on Internal Audit Activity 2019/20 is to support the Committee in its role to gain and provide independent assurance to Council on the adequacy of the risk management framework and the internal control environment.
- 3.2 Non completion of the Annual Report on Internal Audit Activity would lead to non compliance with the PSIAS, the Audit and Standards Committee terms of reference and the [Council Constitution](#) (which confirms the Audit and Standards Committee role to oversee the audit function of the Council).

4.0 IMPLICATIONS

4.1 Financial Implications

There are no financial implications arising directly from this report.

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Risk Assessment:

Failure to deliver an effective Internal Audit Service will prevent an independent, objective assurance opinion from being provided to those charged with governance that the key risks associated with the achievement of the Council's objectives are being adequately controlled.

4.2 Legal Implications

There are no specific legal implications in addition to those mentioned in the report.

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4.3 Equality Implications

There are not any specific changes to service delivery proposed within this decision.

4.4 Environmental Implications

There are no significant implications within this category.