



ANNUAL REPORT OF THE HEAD OF AUDIT RISK ASSURANCE FOR 2021-22

JUNE 2022

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1. Introduction

- 1.1 The Chartered Institute for Public Finance Accountants (CIPFA) and the Chartered Institute of Internal Auditors – UK and Ireland (CIIA) issued The Public Sector Internal Audit Standards (PSIAS).
- 1.2 The PSIAS define Internal Audit as “an independent, objective, assurance and consulting activity designed to add value and improve the Council’s operations. Internal Audit helps the Council to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.
- 1.3 Alongside the PSIAS, a Local Government Application Note was also developed as sector-specific guidance for local government organisations. This provides practical guidance on how to apply the PSIAS in local government.
- 1.4 Internal Audit is a statutory service required by section 5 of the Accounts and Audit Regulations 2015 (the Regulations). The Internal Audit service for Stroud District Council (the Council) is provided by Audit Risk Assurance (ARA), and complies with the above definition.
- 1.5 Internal Audit helps the Council to manage its risks and achieve its objectives. This includes reviewing processes and governance arrangements involved in producing the Council’s Statutory Accounts and the Annual Governance Statement (AGS). We report on these to management and the Audit and Standards Committee (the Committee).
- 1.6 The PSIAS require the Head of ARA to report annually to those charged with governance, Internal Audit’s opinion on the Council’s overall internal control, governance and risk environment arrangements. The opinion is based on the work undertaken by Internal Audit.
- 1.7 This report’s contents are prescribed by the PSIAS which requires Internal Audit to:
 - i. 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;
 - ii. Compare planned work to that delivered and present a summary of the audit activity from which the opinion was derived, drawing attention to any issues of particular relevance;
 - iii. Summarise the performance of the Internal Audit service against its performance measures and targets; and
 - iv. Comment on compliance with the PSIAS.
- 1.8 By accepting the Annual Report of the Head of ARA, the Committee contributes to the fulfilment of its corporate governance responsibilities through the following:
 - i. Recognition of the overall adequacy and effectiveness of the management arrangements which safeguard the Council from significant business risks;

- ii. Providing a source of assurance for those charged with governance to produce a fair and representative AGS in the Statutory Accounts; and
- iii. Ensuring Internal Audit assists the Council to maintain and develop its internal control and governance environment and improve the management of its risks.

1.9 Internal Audit in local government is required to operate in accordance with the PSIAS. In 2020 Internal Audit were externally assessed as being in “General Compliance” with the PSIAS. This is the highest level of compliance possible. We can confirm that Internal Audit has complied with the PSIAS during 2021-22.

1.10 This Annual Report is produced in accordance with, and conforms to, the core principles of the PSIAS.

2. Overall Opinion

2.1 My opinion is that overall, an Acceptable Level of assurance can be provided in connection with the Council’s internal control, governance and risk environment. The findings that have contributed to the level of assurance are those that have been reported to the Committee during 2021-22. These are summarised in the year end Internal Audit Progress Report 2021-22 presented to the July 2022 Committee.

2.2 This opinion can be assessed using the following scale:

- i. “Substantial” assurance – all key controls are in place and working effectively with no exceptions or reservations. The Council has a low exposure to business risk;
- ii. “Acceptable” assurance – all key controls in place and working effectively. There are reservations in connection with the operational effectiveness of some key controls. The Council has a low to medium exposure to business risk;
- iii. “Limited” assurance – not all key controls are in place or are working effectively. The Council has a medium to high exposure to business risk; and
- iv. “No” assurance – key controls are either not in place or are not working effectively. The Council has a high exposure to business risk.

2.3 In providing this opinion it should be noted that assurance can never be absolute. We can provide a reasonable level of assurance that there are no major weaknesses in risk management, control or governance arrangements. The matters raised in this report and our quarterly progress reports, are only those that were identified during our work. They are not necessarily a comprehensive statement of all the weaknesses that may exist or represent all the improvements required.

2.4 In arriving at this opinion, account has been taken of:

- i. The results of all Internal Audit work undertaken during 2021-22;
- ii. Matters arising from the quarterly Internal Audit Progress Reports or other assurance providers to the Committee;

- iii. The effects of any material changes in the Council's risk profile, objectives or activities;
 - iv. Whether any limitations have been placed on the scope of our work; and
 - v. Whether there have been any resource constraints which may have impacted on our ability to meet the needs of the Council.
- 2.5 In all cases, Internal Audit and officers develop actions to improve the management of risk and internal control. The effective implementation of these actions will be assessed as part of our follow-up work in 2022-23 and reported to the Committee.
- 2.6 We can confirm that there has been no actual or potential impairment to our independence and objectivity during the year. Our independence is safeguarded by the Head of ARA having full and unfettered access to the Chief Executive and the Chair of the Committee.
- 2.7 Internal Audit has been free from interference in determining the scope of our work, performing it or communicating the results.
- 2.8 Internal Audit have had unfettered access to all of the Council's systems, operations, records and officers.
- 2.9 Internal Audit officers do not have any other roles in the Council.
- 2.10 The overall opinion on the internal control, governance and risk environment is based on our assessment of the key management arrangements and internal controls. This is the framework of internal controls required to provide management with confidence that the processes to achieve business objectives are:
- i. Adequate and effective for their purpose; and
 - ii. Minimise material business risk, both financial and non-financial.

3. Code of Ethics

- 3.1 The PSIAS requires Internal Auditors in local government to conform to the CIIA's Code of Ethics as set out below. If individual Internal Auditors have membership of another professional body then they must also comply with the relevant requirements of that organisation.
- 3.2 The purpose of the CIIA's Code of Ethics is to promote an ethical culture in the profession of Internal Auditing. This is necessary and appropriate for the profession of Internal Auditing, founded as it is, on the trust placed in its objective assurance about risk management, control and governance.
- 3.3 The Institute's Code of Ethics includes two essential components:
- i. Principles that are relevant to the profession and practice of Internal Auditing; and

- ii. Rules of Conduct that describe behavioural standards expected of Internal Auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of Internal Auditors.

3.4 The components of the Code of Ethics are:

- i. Integrity – this establishes trust and thus provides the basis for reliance on the judgement of Internal Auditors;
- ii. Objectivity – Internal Auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal Auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements;
- iii. Confidentiality – Internal Auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so; and
- iv. Competency – Internal Auditors apply the knowledge, skills and experience needed in the performance of Internal Auditing services.

3.5 Internal Audit complied with the Code of Ethics and the Seven Principles of Public Life as defined by the Nolan Committee, at all times during 2021-22. The Principles are:

- i. Selflessness – holders of public office should act solely in terms of the public interest;
- ii. Integrity – holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships;
- iii. Objectivity – holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias;
- iv. Accountability – holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this;
- v. Openness – holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing;
- vi. Honesty – holders of public office should be truthful; and
- vii. Leadership – holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

4. 2021-22

- 4.1 Our work during 2021-22 identified areas that have not affected the overall opinion above, but which the Council should be aware of and monitor.
- 4.2 The Council entered the new financial year in the midst of the ongoing COVID-19 pandemic and continued to follow guidance from the government. This has included enabling staff to have the option to work from home or in the Council offices in a safe, socially distanced manner.
- 4.3 An internal audit of Planning Enforcement was requested by the Committee. This identified a number of areas for improvement around resourcing, Member oversight and training, review of policy and procedure and investment in new IT. We also identified there was a need for a corporate approach to service planning, performance and risk management around planning enforcement.
- 4.4 An internal audit of the Out of Hours service found non-compliance with the Council's Contract and Procurement Procedure Rules. There was also scope for improvements around contract and risk management as well as business continuity arrangements.
- 4.5 An internal audit of Voids found there was non-compliance with the Tenant Involvement and Empowerment Standard (Annual Reporting). There was also a need for more robust policy and guidance as well as limitations on the quality of data and key performance indicators.
- 4.6 An independent review of the Council's risk management processes was undertaken in 2021-22 by TIAA, who also undertake the Council's IT audits.

Risk Maturity Level	Level 1 Developing (Risk Naïve) No formal approach to risk management.	Level 2 Progressing (Risk Aware) Consulting and planning to implement risk management.	Level 3 Operational (Risk Defined) Early Stages of implementation.	Level 4 Embedded & Engaged (Risk Managed) Established risk management with planned extension /development.	Level 5 Dynamic & Empowering (Risk Enabled) Fully established and effective risk culture at all levels.
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- 4.7 One of the outcomes of the TIAA review has been to identify that, on the above risk maturity scale, the Council is realistically at a Level 3. In previous AGSs, it had been reported that the Council was at a Level 4.
- 4.8 The implementation of the TIAA suggested improvements will assist the Council to work towards being a Level 4.
- 4.9 The Council invited the Local Government Association to undertake a Peer review. The Peer Review team's report was positive about both the Council's progress since 2019 as well as further planned developments included in the Council Plan 2021-26. The report made some recommendations for further improvements. ARA can assist to implement the recommendations as required.
- 4.10 There are a number of challenges that the Council will need to be mindful of during 2022-23 and beyond.

- 4.11 Financial resilience will need to be monitored closely, in light of the challenges posed by the volatility of inflation, utility prices and interest rates. The Council continues to effectively manage its finances in order to minimise the risks from financial pressures. The risk of the Council issuing a Section 114 notice is low.
- 4.12 The recruitment and retention of staff is becoming an area of higher risk across local government. This is being exacerbated by increasing levels of sickness, particularly from stress related issues. The Council will need to monitor this issue to ensure that it has sufficient resource to successfully deliver its services.
- 4.13 Management should ensure that internal controls are maintained when there are staff changes, for example sickness, annual leave or when staff leave.
- 4.14 The risk of fraud is ever prevalent and nationally councils remain a target. Management should ensure that risk registers continue to address this risk for their departments and services.
- 4.15 Risk registers should be updated with risks as they are identified, and internal controls should be developed to minimise these. Risk registers should be reviewed following the issue of an Internal Audit report. This is to ensure that any pertinent risks identified in the report are reflected in the risk register.
- 4.16 It should be noted that for all of the issues reported to the Committee in Internal Audit Reports, management agreed actions to address concerns raised.
- 4.17 The Strategic Leadership Team (SLT) is proactive in monitoring the Council's risks on a regular basis. Risk management and health and safety are standing items on the SLT agenda. Any emerging risks and health and safety issues can be raised here enabling management to formulate appropriate and timely actions to manage these.

5. Counter Fraud Work

- 5.1 The Counter Fraud Team (CFT) is a dedicated ARA resource that enhances the Council's resilience against fraud. During 2021-22 the CFT undertook work to investigate fraud and irregularity.
- 5.2 All the members of the team hold the Accredited Counter Fraud Specialist (ACFS) qualification. This accreditation ensures that a high degree of professionalism and expertise is applied to our counter fraud work.
- 5.3 The CFT can provide tailored counter fraud training for officers and Members at all levels. A Fraud Awareness Session with LMT has already been arranged for August with further sessions expected to be rolled out from September. This can be for new staff and beginners up to providing training for more experienced officers. Examples of the training available includes:
 - i. General counter fraud awareness training covers the areas where fraud could occur and what to look out for;

- ii. Training to support staff undertaking interviews in accordance with the Police and Criminal Evidence Act 1984 (PACE). This training helps officers to plan and undertake these interviews with more confidence or where time has elapsed since they were trained. It is essential that staff undertaking Interviews under caution (IUC) are familiar with current legislation to better ensure that the evidence obtained at interview can be used to support a successful outcome;
 - iii. The CFT can provide further training to officers on preparing documentation for trials including the preparation of court bundles and giving evidence; and
 - iv. Training on specific areas such as contract and procurement fraud can also be provided. Due to the values involved, this is potentially a high risk area for the Council
- 5.4 The CFT manages the 24-hour whistleblowing hotline. In addition, to further enhance the process, the CFT is currently developing a whistleblowing referral process. This will provide the Council with a more secure, transparent record of all whistleblowing allegations, not just the ones received by the Monitoring Officer. The new process is currently going through testing.
- 5.5 As well as the above, the CFT provided assistance and support for with reviewing the Council's National Fraud Initiative (NFI) matches.
- 5.6 The CFT reviewed over 360 NFI matches. Matches were selected based on priorities resulting from the NFI's fraud risk assessment. The CFT was able to 'close with no issue' all but a handful of matches. The matches requiring a more in-depth review were referred back to the appropriate team for their knowledge of the individuals or properties.
- 5.7 A review and refresh of the Council's Counter Fraud Statement and Strategy and Policy is currently under review and will be issued shortly. Once issued this will be available on the Council's intranet and internet web pages

6. Conclusion

- 6.1 This report provides an independent opinion on the adequacy and effectiveness of the internal control, governance and risk management processes.
- 6.2 Management are responsible for establishing, maintaining and owning appropriate risk management, internal control and governance arrangements.
- 6.3 Internal Audit plays a key role in providing independent assurance and challenge, advising the Council whether satisfactory arrangements are in place and operating effectively.
- 6.4 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 Local Code of Corporate Governance and its AGS.
- 6.5 ARA are delighted to report that 90% of the revised Internal Audit Plan for 2021-22 was delivered, against a target of 85%.

- 6.6 Furthermore, following each Internal Audit, a customer satisfaction questionnaire is sent to the Strategic Director, Head of Service or nominated officer. This is to gauge satisfaction of the service provided such as timeliness, quality and professionalism. Officers are asked to rate the service between Excellent, Good, Fair and Poor.
- 6.7 Internal Audit have a target of 80% of questionnaire responses to be assessed as “Good” or better. For 2021-22 this target was exceeded with a score of 100% of questionnaire responses reflecting Internal Audit as being a positive support to their service.
- 6.8 The above confirm that ARA continues to be provide an excellent service to the Council. Improvements to the way in which ARA will work from 2022-23 onwards are highlighted in the AGS. These changes will further enhance the service that we provide to the Council.