



ANNUAL REPORT OF THE HEAD OF AUDIT RISK ASSURANCE 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 Gloucestershire County 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 Governance 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 and 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.
- 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 Audit and Governance 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 CIAA'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 CIAA'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 CIAA'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.
- 4.2 The Council entered the new financial year in the midst of the ongoing COVID-19 pandemic and continued to followed 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 There is no oversight of all whistleblowing allegations when the Monitoring Officer is not notified. Also, there is no deputy in place that feels confident in managing the Council's whistleblowing Procedures. This is being addressed with actions by management and the Whistleblowing Group.
- 4.4 An issue that is growing in prevalence is recruitment and retention with an increase in staff turnover, up to 13% per annum and which is being felt corporately. This results in an additional workload on remaining officers and an increased reliance on temporary staff.
- 4.5 This can manifest itself in an increase in sickness absence related to stress. Management should ensure that internal controls are maintained when there are staff changes, for example sickness, annual leave or when staff depart.
- 4.6 Management should regularly review and update their succession plans in case an officer with knowledge of business-critical processes or systems suddenly became unavailable or left their post. This would help to minimise the risks to the delivery of the Council's services, by ensuring there is a competent replacement.
- 4.7 The Office for Standards in Education, Children's Services and Skills (Ofsted) reinspected Children's Services which resulted in an upgrade from "Inadequate" to "Requires Improvement". This positive direction of travel will need to be maintained to reach the Council's target for Children's Services to be "Good", whilst also facing an increase in demand for the department's services.
- 4.8 A number of Internal Audits covering governance and operational risk themes that were due to be undertaken in Children's Services during 2021-22 were postponed or cancelled. This was at the request of the Senior Leadership Team whose focus was on the Ofsted inspection visit.
- 4.9 The delayed audits are now being progressed and the so outcomes will be reported during 2022-23.
- 4.10 Our schools audits found that, generally, their processes were sound.
- 4.11 Adult Services also continues to face increasing demands for its services, whilst facing reform of social care.
- 4.12 We undertook little work within the area of Adults, partially as a result of staff workloads due to Covid. A number of audits required deferral or required a later than planned start due to this reason.

- 4.13 We completed the direct payment investigation follow-up which showed that controls had improved.
- 4.14 Gloucestershire Fire and Rescue Service was inspected by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS). A number of areas for improvement were identified by HMICFRS in their latest inspection report. A plan capturing the required actions has been formulated and its implementation will be overseen by the Executive Director for Corporate Resources.
- 4.15 The Council needs to ensure that the management of significant contracts is sufficiently challenging with better quality information being available to allow informed decisions to be made. This includes ensuring that significant contracts provide an acceptable level of value for money.
- 4.16 We undertook a lot of work in the area of grants during 2021-22, mainly due to a number of Covid grants. No major control issues with any grants were identified by ARA.
- 4.17 An independent review of the Council's risk management processes was undertaken in 2021-22. This was 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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- 4.18 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.
- 4.19 Improvements mentioned in the TIAA report will be taken forward by the Planning, Performance and Improvement department, as part of a wider programme of enhancements that were already being implemented by them.
- 4.20 The implementation of the TIAA suggestions and the Planning, Performance and Improvement department improvement programme will assist the Council to work towards being a Level 4.
- 4.21 It should be noted that:
- i. 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. To this end, Internal Audit regularly refresh counter fraud policies and maintain a web page to provide advice and assistance to anyone who wishes to report suspected fraud;

- ii. Internal Audit has a dedicated Counter Fraud Team (CFT) that enhances the Council's resilience against fraud; and
- iii. 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.

4.22 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.

4.23 The Corporate Leadership Team (CLT) is proactive in monitoring the Council's risks on a regular basis. Risk management and health and safety are standing items on (CLT) 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 CFT is a dedicated ARA resource that enhances the Council's resilience against fraud.

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 undertook work during 2021-22 to investigate fraud and irregularity.

5.4 Nine cases of fraud valued at £52,640 were identified. Of this £38,814 has been recovered.

5.5 54 irregularities (46 were blude badge related) with a value of £3,118 were identified. £12,500 was recovered in year relating to irregularities identified in a prior year.

5.6 As well as the above, the CFT provided assistance and support in respect of the Council's participation in the Cabinet Office's National Fraud Initiative (NFI) data matching exercise.

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 80% of the Internal Audit Plan for 2021-22 was delivered, against a target of 85%. The result is due to the number of Internal Audit activities in progress at the 2021-22 year end. Once concluded, the Internal Audit outcomes will be reported to Audit and Governance Committee in 2022-23.
- 6.6 Furthermore, following each Internal Audit, a customer satisfaction questionnaire is sent to the Corporate 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 95% 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.