

# London Borough of Islington

## Internal Audit Annual Report

2016/17



# 1. Introduction

## 1.1. Purpose of this report

This report summarises the work that Internal Audit has undertaken during the financial year 2016/17 and provides details on the high risk and priority issues which could impact on the effectiveness of the internal control environment across the Authority.

## 1.2. The Role of Internal Audit

The role of Internal Audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal Audit is therefore a key part of the Council's assurance cycle and is just one of the sources of assurance available to the Council and Audit Committee.

Each year, we seek to adapt and enhance our approach in order to take in to account the Council's risk profile and changes in the system of internal control to ensure that our work remains focused on the areas of high risk and seeks to avoid duplication of effort, where there are other sources of assurance in operation, for example, external audit and Ofsted. Our Internal Audit Charter can be found at Appendix D.

## 1.3. Overview of the Internal Audit Approach

The Public Sector Internal Audit Standards (PSIAS) require that the Head of Internal Audit provides an annual audit opinion and report that can be used by the organisation to inform its governance statement. As such, this report also presents the annual opinion in respect of the adequacy and effectiveness of the organisation's system of internal control. The opinions provided in this report are based on the work completed by the in-house team across the Cross Council Shared Audit Service (with Camden) and our internal audit contractor, PWC.

We generally undertake individual projects with one of two objectives in mind:

- **Assurance Reviews:** The majority of projects are geared towards providing assurance to management on the operation of the Authority's system of internal control. This includes establishment audits (e.g. Schools, Tenant Management Organisations) and grant certifications (of which there were four undertaken during 2016/17).
- **Specific Advice reports:** Other projects are geared more towards the provision of specific advice and support to management to enhance the efficiency, effectiveness and economy of the services and functions for which they are responsible.

We also undertake:

- **Proactive Anti-fraud and Forensic Reviews:** The internal audit work covers investigations into "internal" instances of suspected fraud, proactive anti-fraud work, such as CAATs analysis, National Fraud Initiative (NFI) support, and training and awareness. The work delivered supplements investigative work undertaken by dedicated housing benefit and blue badge fraud teams in the council.

All audit reports include recommendations and actions agreed with management that will, if implemented, further enhance the control environment and the operation of the controls in practice. We formally follow up all of our work to monitor the levels of implementation of agreed actions.

## 1.4. Overview of work done in the year

The original Audit Plan for 2016/17 was approved by the Audit Committee in March 2016. We have continued to communicate closely with senior management to ensure that the audit reviews undertaken represent a focus on high risk areas, in the light of new and ongoing developments to ensure the most appropriate use of our resources. The final number of projects delivered was 57 (25 audit reviews and 32 follow ups) after taking into account projects which were cancelled or deferred to 2017/18, requests for new (unplanned) projects by service management, provision of internal audit service to London Waste Ltd (10 days) and ad hoc support given to Fraud and Risk colleagues.

## 1.5. Internal Audit Opinion

The Head of Internal Audit is satisfied that the work undertaken during 2016/17 enabled a reasonable conclusion to be formed on the Council's control framework, risk and governance arrangements. For the year ended 31<sup>st</sup> March 2017, it is the Head of Internal Audit's opinion that the adequacy and effectiveness of the Council's arrangements is as follows:

<p><b>OVERALL OPINION</b></p>	<p><b>Moderate Assurance</b> – overall the Council's systems for control, risk and governance are generally adequate with some improvement required. Medium risk rated weaknesses identified in individual assignments are not significant in aggregate to the system of internal control, high risk rated weaknesses identified in individual assignments are isolated to specific systems or processes, and none of the individual assignment reports have an overall classification of critical risk. This opinion has been derived from consideration of the detail below. This is consistent with the moderate assurance rating provided for 2015/16.</p>
<p><b>CONTROL</b></p>	<p>Generally, the Council has sound systems of control in place. Seven (41%) of the 17 audits undertaken in the year with an assurance rating opinion, provided positive messages with 'substantial' or 'moderate' levels of assurance as to the adequacy and effectiveness of the internal control environment, while the number of reports providing a 'limited' or 'no' assurance was 10 (59%). Eight management letters were also issued, where an assurance statement is not created.</p> <p>Whilst in comparison, our 2015/16 annual report gave positive assurance in 59% of reports, and negative assurance in 41%, it should be noted that nine of these reviews with no or limited assurance related to individual establishments and it is therefore not considered significant in aggregate to the system of internal control across the Council.</p> <p>In addition, follow up reviews undertaken during 2016/17 confirmed that of the 50 critical/high priority recommendations made in 2015/16, all have been either fully or partially addressed and controls improved where appropriate. Out of 32 follow ups undertaken, five related to reports which were no assurance and two related to a report which was originally rated as limited assurance. Out of these seven reports, audit follow up testing concluded that due to the high level of implementation of recommendations, the indicative assurance level could be increased to moderate for five reports, which suggests that the control environment, only in relation to the specific areas covered by the follow up audit, has improved on follow up. The reports where assurance could not be raised is outlined at section 3.</p>
<p><b>RISK</b></p>	<p>In 2016/17 the risk management framework was refined to define materiality and provide guidelines for risk escalation. Key aspects of the new approach have included the development of a top-down (CMB-owned risks) and bottom-up approach (service-owned risks) to risk management including the identification of key principal risks facing the Council as identified by CMB and senior management across each Department. The CMB risk map has been refined, and there are now departmental risk maps for every department. Going forward, risk workshops will take place to embed refinements to the framework. Risk reviews will take place for each divisional management team every six months to help integrate and embed</p>

	effective risk management within the culture of the Council
<b>GOVERNANCE</b>	Some areas will be continue to be monitored during 2017/18 to ensure appropriate governance is effected to optimise outcomes, including business continuity arrangements, compliance with the General Data Protection Regulation requirements and the development of the Shared Digital service.

### 1.6. Report Assurance Ratings by Service Area

Service Area	Substantial Assurance	Moderate Assurance	Limited Assurance	No Assurance	Not Rated (Mgmt Letters)	Total
Cross-Cutting/Corporate Review					3	3
Environment and Regeneration	1	1				2
Housing and Adult Social Services (HASS)			1	2	1	4
Children's Services (Non-Schools)		2		1	2	5
Children's Services (Schools)		1	4	2		7
Resources	1	1			2	4
<b>Total</b>	<b>2</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>8</b>	<b>25</b>

## 2. Key themes identified in 2016/17

### 2.1. Fundamental and Key Financial Systems

Each year Internal Audit carries out reviews of the Council's fundamental financial systems. Through discussion with senior management, the 2016/17 scope was revised to focus on those systems which are the most important financially and carry the highest inherent risk of error. These priorities have been agreed with management based on the results of previous reviews. Additional controls have also been added to a number of key systems at the request of management, where issues have been identified in the period since the 2015/16 results were reported. In 2016/17, the approach was updated to utilise data analytics to support the testing over a number of key financial processes. Data analytics was employed to identify all exceptions within a given population. Detailed testing was then performed on a sample of exceptions to provide further insight.

The key financial systems reviewed during this audit were: Cash Management; Accounts Payable; Accounts Receivables – Sundry Income; Treasury Management; Housing Rents; Housing Benefits and; Parking.

These were agreed with management on the basis that Cash, Treasury, Accounts Payable and Accounts Receivable represent the Council's core financial systems. Housing Rents and Housing Benefits were not reviewed in the prior year and so were selected for testing. Systems which had few or no issues in the prior year, and senior management therefore consider them at low risk of error, were not retested in 2016/17. These included: Council Tax, NNDR and Estates Parking. ControCC (previously Abacus) was subject to separate internal audit review in 2016/17 and a separate review of Payroll has been deferred to 2017/18 and therefore were not reviewed as part of this work.

The 2016/17 overall opinion rating for the fundamental systems was 'moderate' assurance, which is consistent with the assurance rating provided in 2015/16. The key controls in the Council's financial systems continue to operate effectively based on the sample testing performed. In three of the seven systems tested (Housing Benefits, Housing Rents and Accounts Receivable), substantial assurance was given. In two of the seven systems tested, Cash and Treasury Management, the control environment has deteriorated. This is due to an increase in the number of control design issues noted in relation to the access to online banking. The remaining areas have remained consistent with findings in the prior period.

The direction of travel across the systems can be summarised as follows (\*Testing last performed in 2014/15):

System	Rating 2016/2017	Rating 2015/2016	Direction of Travel
Cash Management	Limited ●	Substantial ●	↓
Accounts Payable	Moderate ●	Moderate ●	↔
Accounts Receivable	Substantial ●	Substantial ●	↔
Treasury Management	Moderate ●	Substantial ●	↓
Housing Rents	Substantial ●	N/A	↔ *
Housing Benefits	Substantial ●	N/A	↔ *
Parking	Moderate ●	Moderate ●	↔

## 2.2. No Assurance Reports

### a) Foster Care Payments

The review was limited to reviewing the system for managing and processing foster care payments only and did not evaluate adoption or residence/guardianship order payments or consider the service's financial/performance monitoring controls. However, it is in the opinion of Internal Audit that the findings and recommendations raised surrounding the management of foster care payments, may relate to and could equally be applied to adoption and residence/guardianship order payments. Going forward, Internal Audit will discuss with management the possibility of including a review of adoption and residence/guardianship order payments within planned follow-up work.

Four high priority and one medium priority findings were identified. The four high priority findings relate to: validation of payment runs; system reconciliations; processing and authorisation of payments to carers; and expense / one-off payments. It should be noted that management had already begun to implement systems and controls to address the issues highlighted, and Internal Audit plan to conduct a follow-up review during Quarter 3 2017/18.

### b) Laycock School

Six high priority and six medium priority findings were identified. The high priority findings related to: payment and use of self-employed individuals; staff reimbursements; petty cash; purchasing arrangements; collection and management of income and; lettings.

### c) St John's Highbury Vale School

Six high priority findings were identified within the following areas: management of petty cash expenditure; purchasing controls; management of income collection records; payments to self-employed individuals; management of school lettings; and management of school assets.

### d) Dixon Clarke TMO

Internal Audit identified four high risk issues relating to: HR, use of debit card, payment of staff bonuses and bank accounts.

### e) Arch Elm TMO,

Internal Audit identified four high risk issues relating to: data security; HR; Safe Gas and; petty cash.

## 2.3. Business Continuity

A Business Continuity Internal Audit report was issued in November 2015, which raised four recommendations (two high and two medium priority) and provided a 'limited assurance' opinion. In response to the report, Management identified the actions that would be undertaken by the Business Continuity / Emergency Planning functions and

also highlighted where input from Corporate Directors was required in order to fully address and action the weaknesses identified within the report. An interim follow-up review was undertaken in May 2016, which identified that the Business Continuity / Emergency Planning function had made good progress towards implementing the recommendations, by fully implementing one recommendation and partially implementing three recommendations. The three partially recommendations were identified as requiring input from Corporate Directors in order to oversee their full implementation.

In March 2017 Internal Audit completed a final follow-up assessment, which identified that overall little progress has made since the interim follow-up, and as a result the three recommendations assessed as partially implemented in May 2016 remain outstanding in the following areas: Business Continuity Arrangements for Partners / Suppliers, Alignment with ICT Disaster Recovery Plan(s), Completion of BIAs and Business Continuity Plans and Corporate Support Arrangements.

As identified in the original Internal Audit report and the interim follow-up completed in May 2016, the Business Continuity / Emergency Planning function has implemented a corporate business continuity framework; however there continues to be a number of issues across the Council regarding the general compliance and conformance with this. To this end, during the course of other Internal Audit activities conducted during 2016/17, where relevant, we have reviewed and assessed the completeness of service-level business continuity plans; and in a number of instances this highlighted that whilst plans were in place, they were not fit-for-purpose.

It is in the opinion of Internal Audit that owing to a number of developments and changes to the Council, and the external environment, since the original Internal Audit report was issued, the Council's exposure to business continuity related risks may have increased.

## 2.4. Information Governance

In 2016/17 Internal Audit performed a gap analysis over the Council's key documentation in relation to General Data Protection Regulation, ahead of its enforcement from May 2018. The following key themes were identified:

- Risk based prioritisation of the action plan
- Clear, simple, communicated vision for data privacy
- Senior stakeholder sponsorship and commitment
- Alignment to GDPR requirements

Management actions in these areas are already underway.

Several other audit reviews during 2016/17 may also impact on the Council's ability to comply with GDPR:

- Box - The Council commissioned a piece of work to review the security arrangements of the Box application. Subsequently, E&R accepted that Office365 would be the corporate document management and sharing offering. The existing Box contract finished in July 2017 and work is underway to migrate all the content from Box to SharePoint Online as part of the Shared Digital Office365 project.
- TMO IT Arrangements - The critical finding related to IT Support and data security. The four high priority findings related to information asset register and document retention; policies and procedures; access control management and legal and regulatory compliance and governance.
- Role of SIRO - TBC
- Cyber Security - TBC
- Findings arising from individual establishment audits, such as schools.

Internal Audit works closely with the Information Governance team, appraising them of emerging findings. The risk is also monitored through the Council's Principal Risk Report.

## 2.5. Shared Digital

The formation of the Shared Digital Service in 2016/17 brings together IT provision for Camden, Haringey and Islington. Audit work in this area in 2016/17 has included:

- Cyber Security
- Role of SIRO
- O365

Whilst Haringey have their own Internal Audit provision, the Role of SIRO and O365 reviews were undertaken across all three boroughs by the same auditor to provide adequate assurance and overview to the Chief Information and Digital Officer.

## 2.6. Schools - key themes identified in 2016/17

Through the completion of the school audit work undertaken in the financial year 2016/17, we identified a number of key themes and common findings across schools, which were also consistent with the findings we identified within the school audit work completed within the financial years 2014/15 and 2015/16:

- a) Purchasing and Expenditure Systems
- b) Vetting and Payment of Self-Employed Individuals
- c) Business Continuity Arrangements
- d) Data Protection
- e) Review of System of Internal Control

## 2.7. TMOS - key themes identified in 2016/17

- a) Financial Management/Purchasing and Expenditure Systems
- b) Income
- c) HR
- d) Vetting and Payment of Self-Employed Individuals
- e) Business Continuity Arrangements
- f) Asset Management
- g) Governance
- h) Data Security
- i) Review of System of Internal Control

### 3. Management's response to implementing audit recommendations

Progress in implementation of recommendations made in 2015/16 reports has been monitored by completion of follow up audits on all high risk recommendations made. This exercise has confirmed that of the 50 critical/high priority recommendations made in 2015/16, all have been either fully or partially addressed and controls improved where appropriate.

Out of 32 follow ups undertaken, five related to reports which were no assurance and two related to a report which was originally rated as limited assurance. Out of these seven reports, audit follow up testing concluded that due to the high level of implementation of recommendations, the indicative assurance level could be increased to moderate which suggests that the control environment, only in relation to the specific areas covered by the follow up audit, has improved on follow up for five reports:

- Personal Budgets
- Harry Weston TMO
- Canonbury Shool
- The Factory Children Centre
- Sunnyside

The following reviews remained at limited assurance:

Department	Audit Title	Original Assurance Rating	Revised Assurance Rating	Outstanding Recommendations
Cross-Cutting	Operational Business Continuity	Limited	Limited	As detailed above
HASS	Holbrook TMO	Limited	Limited	In the previous report seven recommendations (three high and five medium priority) were made. Based on the evidence presented, our follow up audit revealed that: four recommendations (two high priority and two medium priority) have been fully implemented, two recommendations (both medium) have not been implemented and; one high recommendation has been superseded. One outstanding recommendation relates to the block charges return and the other relates to the repairs IT module. In addition, a further high priority finding was identified with Holbrook TMC failing to follow protocols in their procurement for works.

As previously reported, Planning/S106/ Building Control remains at limited assurance. Originally 31 recommendations were made in reports originally issued in 2011/12, of which 15 were high priority, 13 medium and three low. All three areas remain limited, with the following remaining outstanding: five high priority recommendations; two medium priority; two low priority. The outstanding recommendations relate to, or are associated with, the M3 system in place preventing adequate management information

allowing effectiveness in the process and monitoring of planning/building control applications. Internal Audit understands that management have put manual work-arounds in place to counteract the issues with M3 and mitigate the risks. The effectiveness of these controls have not yet been independently verified by Internal Audit.

An audit review of Planning/S106 and Building Control has subsequently been deferred to 2018/19 by management due to the changes being made to M3. Internal Audit considers there little value in continuing to monitor these outstanding actions and instead will look at the current risks and environment in 2018/19.

#### 4. Service Summaries: 2016/17 Final Reports

##### 4.1. Cross-Cutting Reviews

Report Title	Assurance Rating	Critical	High	Medium	Low	Key issues arising
Cross Council Savings	n/a – management letter	0	4	1	0	The high priority findings related to: savings proposals; validity and detail of savings plan; setting of savings targets; RAG risk assessment; monitoring of savings; post review and evaluation of savings.
Information Governance – GDPR Readiness	n/a – management letter	0	4	1	0	A gap analysis was performed over the Council's key documentation in relation to GDPR and the following key themes were identified: risk based prioritisation of the action plan; clear, simple, communicated vision for data privacy; senior stakeholder sponsorship and commitment; and alignment to GDPR requirements.
Box (addition to plan)	n/a – management letter	0	8	3	0	The Council commissioned a piece of work to review the security arrangements of the Box application It is understood that the proposed future rollout of O365 will largely supersede the recommendations made in relation to Box.

Cyber Security due to be finalised September 2017. Voluntary Organisations was deferred to 2017/18 at management's request. Health and Safety and Equalities (Resident Impact Assessments) were deferred to 2017/18 with management agreement.

##### 4.2. Children's Services

Report Title	Assurance Rating	Critical	High	Medium	Low	Key issues arising
East West Nursery (Addition to Plan)	n/a – management letter– findings indicative of no assurance	2	0	0	0	As a result of the inability to access key financial records for the Nursery, the audit concluded that no assurance could be provided that further Council funding would be used as intended and/or that the nursery has complied with Data Protection Act requirements.
Foster Care & Adoption Payments	No	0	4	1	0	Four high priority and one medium priority findings have been identified. The four high priority findings relate to: validation of payment runs; system reconciliations; processing and authorisation of payments to carers; and expense / one-off payments.

Report Title	Assurance Rating	Critical	High	Medium	Low	Key issues arising
Hornsey Road Children's Centre	Moderate	0	0	5	0	The audit highlighted five medium risk issues, including budgetary control, income and expenditure statements, purchasing, arrears and risk register. Follow up completed June 2017 and revealed that: four recommendations have been fully implemented and; one recommendation has been partially implemented.
Education Health Care Plans (previously SEN)	Moderate	0	0	1	5	The medium priority finding relates to Education Health Care (EHC) plans; sample testing highlighted that expected events in the process had been skipped without reasons provided. Internal audit had noted action taken to review operational procedures establishing closer links between Children Services and Adult Social Services by updating transition policies and processes with a view to establishing a smooth transition between the two services, related to client who have been assessed and will require continued care support. In addition, one high, two medium and one low priority findings highlighted in the previous audit have been assessed and concluded as implemented.
Stronger Families	Internal Audit have provided on-going assurance during 2016/17 regarding the grant claim and have been satisfied that the proposed claims were accurate based on the sample testing performed and the provisional number of claims identified.					

School Monitoring was deferred with management agreement. Personal Budgets was undertaken as a follow up.

### 4.3. Children's Services (Schools)

School	Assurance Rating	Critical	High	Medium	Low	Key issues arising
Laycock	No	0	6	6	3	Six high priority and six medium priority findings have been identified. The high priority findings relate to: payment and use of self-employed individuals; staff reimbursements; petty cash; purchasing arrangements; collection and management of income and; lettings
St John's Highbury Vale	No	0	6	6	1	Six high priority findings have been identified within the following areas: management of petty cash expenditure; purchasing controls; management of income collection records; payments to self-employed individuals; management of school lettings; and management of school assets.
St Marks C of E	Limited	0	2	6	3	Two high priority findings have been identified within the following areas: payments to staff; and payments to self-employed individuals

School	Assurance Rating	Critical	High	Medium	Low	Key issues arising
Hannover	Limited	0	2	10	1	Two high risk issues were identified relating to: information governance and the school's debit card.
Central Foundation	Limited	0	2	5	4	Two high priority findings have been identified within the following areas: payments to staff; and payments to self-employed individuals
The Bridge	Limited	0	3	4	5	Three high priority recommendations have been identified in the following areas: HR and Payroll; Payment of Self-Employed Individuals; Starters and Leavers
St Aloysius	Moderate	0	1	2	3	One high priority recommendation was identified relating to HR. A separate review relating to HR and Payroll was also undertaken.

#### 4.4. Environment and Regeneration

Report Title	Assurance Rating	Critical	High	Medium	Low	Key issues arising
Street Trading	Moderate	0	1	7	1	A high priority issue was identified relating to where arrears recovery action had not been taken in line with expected practice.
Leisure Centre Contract Arrangements	Substantial	0	0	1	2	The medium priority recommendation related to contract monitoring.

SES Savings due for completion September 2017. Commercial Waste deferred to 2017/18 due to resourcing issues. Planning/S106 and Building Control deferred to 2018/19 by management due to the changes being made to M3.

## 4.5. Housing and Adult Social Services

Report Title	Assurance Rating	Critical	High	Medium	Low	Key issues arising
TMO IT Arrangements (addition to the plan)	n/a – management letter – findings indicative of no assurance	1	4	0	0	The critical finding related to IT Support and data security. The four high priority findings related to information asset register and document retention; policies and procedures; access control management and legal and regulatory compliance and governance.
TMO: Dixon Clarke	No	0	4	8	0	Internal Audit identified four high risk issues relating to: HR, use of debit card, payment of staff bonuses and bank accounts.
TMO: Arch Elm	No	0	4	7	1	Internal Audit identified four high risk issues relating to: data security, HR, Safe Gas and Petty Cash.
Islington Law Centre (addition to plan)	Limited	0	3	5	1	Three high priority findings were identified relating to financial management, separation of duties, and financial procedures.

Bemerton TMO was undertaken in May 2017 and is due to be finalised in September 2017; two further TMO's were deferred to 2017/18. Support for Carers and Responsive Repairs cancelled with management agreement.

## 4.6. Resources

Report Title	Assurance Rating	Critical	High	Medium	Low	Key issues arising
Continuous Auditing/KFS Audits	Moderate – overall					<p>The key controls in the Council's financial systems continue to operate effectively based on the sample testing performed. In three of the seven systems tested, substantial assurance has once again been given. In two of the seven systems tested, Cash and Treasury Management, the control environment has deteriorated. This is due to an increase in the number of control design issues noted, including in relation to the access to online banking. The remaining areas have remained consistent with findings in the prior period.</p> <p>In prior periods, design issues were noted with four controls, which had not been previously implemented. One of these remains high priority, relating to: Invoice validation through a three-way match - there is still scope to strengthen both preventative and detective controls in this areas, including developing the Fiscal data analytics tool, which enables a set of analytics and tests to be designed which will help mitigate the risk exposures in relation to payments and suppliers. Three design issues (two medium and one low priority) were previously noted in the controls within parking. These require further action to implement the agreed recommendations.</p>
Abacus/Controcc	Substantial	0	0	1	1	<p>The Council has previously used "ABACUS" to manage the means-testing of service users to establish their client contribution and to pay care home providers. The Council recently moved from ABACUS to a similar system, "ContrOCC". The transition was undertaken in August 2016 and went live 5<sup>th</sup> September 2016. The design of the controls was assessed in a first phase of work in October 2016. A management letter was issued as attached in Appendix 2. The second phase of work undertook an assessment of the operation of these controls, and followed up on the recommendations made in phase one. One medium and one low risk finding were raised. The medium risk finding relates to the lack of reconciliation between the care management system, "LAS" and ContrOCC.</p>
Supplier Bank Detail Amendments (addition to plan)	n/a - management letter	0	2	0	0	<p>Following an attempted mandate fraud, the Investigations team carried out an immediate investigation into the fraud and Internal Audit also reviewed the controls around supplier bank detail amendments, in line with the recent Continuous Auditing outcome and a follow up of a management letter issued in August 2015 relating to the same area. Investigations presented their findings in a separate management letter. Internal Audit raised two high priority recommendations relating to establishing the veracity of supplier details and documenting procedures.</p> <p>Follow Up completed March 2017 - based on the evidence presented, our follow up audit revealed that both recommendations have been fully implemented.</p>

Report Title	Assurance Rating	Critical	High	Medium	Low	Key issues arising
DBS Checks (addition to plan)	n/a - management letter	0	2	0	0	High priority findings related to the definition and communication of roles and responsibilities; setting of formal protocols; and the management of DBS renewals for agency staff.  Follow Up completed May 2017 – based on the evidence presented, our follow-up has concluded that: one recommendation has been implemented; and one recommendation has been partially implemented. The partially implemented recommendation relates to the publishing and communicating of the Council's DBS renewals policy.

Payroll and Gifts and Hospitality/Declarations of Interest were deferred from 2016/17 and will be undertaken in 2017/18.

#### 4.7. Shared Digital

Work in Progress due for completion September 2017: Role of SIRO, 3rd Party Arrangements and O365

#### 4.8. Public Health

Review of Transforming Public Health programme was cancelled at management's request. Alternative review of Public Health Evidence Hub was deferred to 2017/18.

## 5. Review of the Effectiveness of Internal Audit

The internal audit service operates in line with the PSIAS and the service is measured against a number of key performance indicators as reported below. Our Internal Audit Charter can be found at Appendix D.

Key Performance Indicators used to demonstrate the effectiveness of the internal audit function in 2016/17 highlighted the following:

KPI Target	Results
<p>% of the annual audit plan completed compared to what was planned. Target 90% (draft reports) by 31st March 2017; 100% (final reports) by 30th April 2017</p>	<p><b><u>Draft Report stage:</u></b> For those audits in our control - 97% Result when taking Principal Auditor vacancy in to account (8 audits affected): 78% Result when taking client delays in to account (a further 7 audits affected): 66%</p> <p><b><u>Final Report stage (as at 30th April)</u></b> For those audits in our control – 85% Result when taking client delays in to account: 64%</p> <p>On track for 100% completion by 30<sup>th</sup> September 2017.</p>
<p>% of applicable audit reports followed up within financial year. Target 100%</p>	<p>For those audits within our control: 81% achieved (25/31 follow ups were completed by 30<sup>th</sup> April 2017) Result when taking client delays in to account: 74% achieved (25/34 follow ups completed by 30<sup>th</sup> April 2017)</p> <p>On track for 100% completion by 30<sup>th</sup> September 2017.</p>
<p>Audit areas where the level of assurance has risen at the follow-up stage: 90%.</p>	<p>71% achieved. For the seven no/limited assurance follow ups completed, the assurance level for five reviews improved from 'no' or 'limited' to indicative 'moderate'.</p>
<p>Customer Satisfaction results</p>	<p>Customer survey not widely used in 2016/17 due to delays in implementation of new system. However, of the customer surveys received, ratings of excellent or good were recorded. Feedback from other sources has also been positive.</p>

Key to Assurance Levels: Individual Reports

Level of Assurance	
<b>Substantial</b> 	There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice.
<b>Moderate</b> 	An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.
<b>Limited</b> 	There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.
<b>No Assurance</b> 	There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.

Recommendations

Risk rating	
<b>Critical</b> 	<p>Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale &amp; service performance. Mass strike actions etc</p> <p>Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council, members or officers.</p> <p>Cessation of core activities, Strategies not consistent with government's agenda, trends show service is degraded. Failure of major Projects – elected Members &amp; SMBs are required to intervene</p> <p>Major financial loss – Significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council; Critical breach in laws and regulations that could result in material fines or consequences</p>
<b>High</b> 	<p>Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale &amp; performance of staff.</p> <p>Significant impact on the reputation or brand of the organisation ; Scrutiny required by external agencies, external audit etc. Unfavourable external media coverage. Noticeable impact on public opinion</p> <p>Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome med – term difficulties</p> <p>High financial loss Significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences</p>
<b>Medium</b> 	<p>Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale &amp; performance of staff.</p> <p>Moderate impact on the reputation or brand of the organisation ; Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage.</p> <p>Significant short-term disruption of non-core activities. Standing Orders occasionally not complied with, or services do not fully meet needs. Service action will be required.</p> <p>Medium financial loss - Small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences</p>
<b>Low</b> 	<p>Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale</p> <p>Internal Review, unlikely to have impact on the corporate image. Minor impact on the reputation of the organisation</p> <p>Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines.</p> <p>Minimal financial loss – Minimal effect on project budget/cost. Minor breach in laws and regulations with limited consequences</p>

Annual opinion categories

Type of opinion	When to use this type of opinion
<b>Substantial</b>	<ul style="list-style-type: none"> <li>• generally only low risk rated weaknesses found in individual assignments; and</li> <li>• none of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<b>Moderate</b>	<ul style="list-style-type: none"> <li>• medium risk rated weaknesses identified in individual assignments that are <i>not significant in aggregate</i> to the system of internal control; and/or</li> <li>• high risk rated weaknesses identified in individual assignments that are <i>isolated</i> to specific systems or processes; and</li> <li>• none of the individual assignment reports have an overall classification of critical risk.</li> </ul>
<b>Limited</b>	<ul style="list-style-type: none"> <li>• medium risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or</li> <li>• high risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or</li> <li>• critical risk rated weaknesses identified in individual assignments that are <i>not pervasive</i> to the system of internal control; and</li> <li>• a <i>minority</i> of the individual assignment reports may have an overall report classification of either high or critical risk.</li> </ul>
<b>No</b>	<ul style="list-style-type: none"> <li>• high risk rated weaknesses identified in individual assignments that <i>in aggregate are pervasive</i> to the system of internal control; and/or</li> <li>• critical risk rated weaknesses identified in individual assignments that are <i>pervasive</i> to the system of internal control; and/or</li> <li>• <i>more than a minority</i> of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>

### Internal Audit Shared Service

#### Internal Audit Charter

##### Introduction

Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of London Boroughs of Camden and Islington.

It assists London Boroughs of Camden and Islington in accomplishing their objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the risk management, control, and governance processes operating in both councils.

##### Definitions

For the purposes of this Charter, the following definitions apply:

**The Board:** The governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At both LB Camden and Islington this shall mean the Audit Committee.

**Senior Management:** Those responsible for the leadership and direction of the Councils.

##### Role & Purpose

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

*‘undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’.*

The standards for ‘proper practices’ in relation to internal audit, are laid down in the Public Sector Internal Audit Standards 2013 (‘the Standards’).

Each 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 Councils that these arrangements are in place and operating effectively. Each Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

The role of internal audit is best summarised through its definition within the Standards, 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'*

### Professionalism

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to LB Camden and Islington relevant policies and procedures and the internal audit activity's standard operating procedures manual.

### Authority

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Audit Committee.

### Organisation

The responsibility for maintaining an adequate and effective system of internal audit within LB Camden & Islington lies with the respective Directors of Finance, as the authority's Chief Finance Officers (S151 Officer).

For the Councils, internal audit is provided by internal council employees and through a partnership arrangement with PWC.

The Head of Audit is responsible for effectively managing the internal audit activity in accordance with the 'Definition of Internal Auditing', the 'Code of Ethics' and 'the Standards'.

The Head of Audit reports functionally to the Audit Committees, and organisationally to the Director of Finance who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of each Council's affairs.

The Head of Audit has direct access to the Chief Executives who carry the responsibility for the proper management of their Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

Where it is considered necessary to the proper discharge of internal audit function, the Head of Audit has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit Committees).

The Head of Audit will communicate and interact directly with the Audit Committees, including in executive sessions and between Audit Committee meetings as appropriate.

## Internal Audit Resources

The Head of Audit will be professionally qualified (CIPFA, CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The Director(s) of Finance will provide the Head of Audit with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Head of Audit will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Head of Audit can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

Senior Management and the Audit Committee will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be submitted to senior management and the Audit Committee for approval. The Head of Audit will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to senior management and the Audit Committee.

If the Head of Audit, the Audit Committee or Senior Management considers that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Director(s) of Finance accordingly.

The Head of Audit must seek approval from the Audit Committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

## Independence and objectivity

The internal audit activity, including the Head of Audit will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity, including the Head of Audit:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to senior management and the Board;
- reports functionally to the Board;

- reports in their own name;
- rotates responsibilities for audit assignments within the internal audit team;
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements; and
- ensures the planning process recognises and addresses potential conflicts of interest through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles.

The Head of Audit will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to Senior Management and the Board. The nature of the disclosure will depend upon the impairment.

To ensure the independence of the Head of Audit is safeguarded and that remuneration and performance assessment are not inappropriately influenced by those subject to audit, the Chief Executive will both countersign and contribute feedback to the performance appraisal of the Head of Audit. Feedback will also be sought from the Chair of the Governance Committee.

### Responsibility

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of each Council's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit include:

- Consistency of operations or programmes with established objectives and goals and effective performance.
- Effectiveness and efficiency of operations and employment of resources
- Compliance with significant policies, plans, procedures, laws, and regulations
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Safeguarding of assets.

Internal Audit is responsible for evaluating all processes ('audit universe') of the entity including governance processes and risk management processes. It also assists the Audit Committee in evaluating the quality of performance of external auditors and maintains proper degree of coordination with internal audit.

Internal audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Audit Committee or management, as appropriate.

Based on its activity, Internal audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to Senior Management, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee.

### Internal audit plan

At least annually, the Head of Audit will submit to the Audit Committee an internal audit plan for review and approval, including risk assessment criteria. The internal audit plan will include timing as well as budget and resource requirements for the next fiscal year. The Head of Audit will

communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Audit Committee. Prior to submission to the Audit Committee for approval, the plan may be discussed with appropriate senior management. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

### **Scope of Internal Audit Activities**

The Head of Audit is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

A range of internal audit services are provided to form the annual opinion. The approach is determined by the Head of Audit and will depend on the level of assurance required, the significance of the objectives under review to the organisations success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls. Additionally, proactive fraud reviews will be incorporated within the plan to deter and detect fraud, covering known areas of high risk.

Managers are required to report all suspicions of theft, fraud and irregularity to the Head of Audit. The Head of Audit manages and controls all investigations and will ensure that investigators are fully trained in carrying out their responsibilities.

Where there is evidence that Council staff are committing fraud, internal audit will liaise with Human Resources and the department concerned, invoking disciplinary action as appropriate. The decision on whether to invoke criminal proceedings will be made by the Head of Audit in conjunction with the relevant officers.

The monitoring of the Council's Anti-Fraud Strategy will be the responsibility of the Head of Audit, as part of the monitoring of the internal audit annual plan.

Internal audit also facilitate the Council's participation in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

### **Reporting and monitoring**

A written report will be prepared and issued by the Head of Audit or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Audit Committee.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

### Periodic assessment

The Head of Audit is responsible also for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.

In addition, the Head of Audit will communicate to senior management and the Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.