

# London Borough of Islington

## Internal Audit 2015/16 Interim Report

January 2016



## 1. Purpose of this report

This report summarises the work that Internal Audit has undertaken from 1<sup>st</sup> April to 31<sup>st</sup> October 2015 and provides details on the high risk and priority issues which could impact on the effectiveness of the internal control environment across the Authority.

## 2. Overview of Year to Date

From 1<sup>st</sup> April 2015 to 31<sup>st</sup> October 2015 we have issued the following (details of individual reports can be found in Service Summaries below):

- Five **No Assurance** reports (for comparison, one no assurance report was issued in full financial year 2014/15)
  - One report – Cross-Cutting VCS organisation (E&R, HASS, Chief Exec’s Office)
  - One report – HASS (TMO)
  - Three reports – Children’s Services (School, Children’s Centre, Personal Budgets)
- Two **Limited** Assurance reports
- Five **Moderate** Assurance
- One **Substantial** Assurance
- Six management letters

We are on track to complete the audit plan as agreed by end March 2016. Deferrals may need to be made to accommodate high priority/urgent pieces of work as necessary; these will, however, be discussed and agreed with management.

## 3. Update on progress on implementation of 2013/14 recommendations

The following areas were reported in the 2014/2015 Annual Report as either:

- assurance had not increased from limited to moderate on follow up; or
- high priority recommendations were still outstanding on follow up.

The current status is detailed below:

Dep	2013/14 Audit	Original Assurance Rating	Revised Assurance Rating	Position – 2014/15 Annual Report	Position as at 31 <sup>st</sup> October 2015
HASS	Braithwaite TMO	Limited	Indicative of Moderate Assurance	In June 2015, this remained at limited assurance. Of the twelve medium recommendations made, eight remain outstanding. Revised target dates were March 2015.	Following an update from the TMO manager, it was noted that the majority of outstanding recommendations have now been fully implemented with two medium priority recommendations being a work in progress. A full audit would have to be undertaken to formally raise the assurance rating, however, feedback from management suggests that this is now indicative of moderate assurance.

Dep	2013/14 Audit	Original Assurance Rating	Revised Assurance Rating	Position – 2014/15 Annual Report	Position as at 31 <sup>st</sup> October 2015
E&R	Planning/S106/ Building Control	Limited	Limited	<p>Follow up of reports originally issued in 2011/12. Originally 31 recommendations were made, of which 15 were high priority, 13 medium and 3 low). All three areas remain limited, with the following remaining outstanding:</p> <ul style="list-style-type: none"> <li>• 5 high priority recommendations</li> <li>• 2 medium priority</li> <li>• 2 low priority</li> </ul> <p>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.</p>	<p><b>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 the controls have not been independently verified by Internal Audit, however, a review of the M3 system is being carried out in Q4 2015/16 which will seek to ascertain whether these issues have been addressed. Consideration will also be given to including a full review of these areas in the 2016/17 plan.</b></p>
DST	Change Management	Limited	TBC	<p>As reported in the 2014/15 Annual Report, the underlying root cause for the non-implementation of findings was that management took a decision to re-design the suite of IT management policies and procedures during 2014/15. Thus the control frameworks in place changed from the time of our original audits. The current status of this project overall is that whilst re-designed policies have been approved by the Council, only exemplars have been translated into formalised processes and procedures to be followed by staff. Therefore, many of the improvements have not yet been fully implemented in practice and the risks and recommendations identified in our original audit reports have not been fully addressed. Management are aware of this and are working towards this as part of the implementation of the new policies.</p>	<p><b>Internal Audit are currently revisiting the outstanding recommendations to establish the subsequent level of implementation following the embedding of the redesigned policies. Report due by 31<sup>st</sup> January 2016.</b></p>
DST	3 <sup>rd</sup> Party Management	Limited			
DST	Network Security	Limited			
DST	IT Asset Management	Moderate			
DST	Server Management	Moderate			
DST	PARIS Upgrade	Moderate			
DST	Network Starters & Leavers (12/13)	Moderate			
DST	Service Desk & Delivery	Moderate			

## 4. Update on progress on implementation of 2014/15 recommendations (as at 31st October 2015)

Department	2014/15 Audit Title	Original Assurance Rating	Revised Assurance Rating	Position as at 31 <sup>st</sup> October 2015
HASS	Brunswick TMO	Limited	Limited	Ten recommendations (two high, seven medium, one low priority) remain outstanding. Revised targets are November 2015 and January 2016.
HASS	Taverner & Peckett TMO	Limited	Moderate	Assurance increased on follow up. Sixteen recommendations originally reported; twelve (including the one high priority) have been fully implemented, three medium partially implemented and one low priority not implemented. Revised target dates between November 2015 and March 2016.
Cross-Cutting	Leaseholder service & Major Works charges - Partners	Limited	Moderate	The original report issued in March 2015 was rated at Limited Assurance, with the high priority finding relating to arrears recovery. Subsequent follow up in June 2015 highlighted that six recommendations (including the high priority) have been fully implemented and three recommendations have been partially implemented with full implementation due July 2015. As a result of the rate of implementation of recommendations, the level is now indicative of 'moderate' assurance, which suggests that the control environment, in relation to the specific areas covered by this audit, has improved on follow up.
E&R	Cemeteries	Moderate	Moderate	Moderate - in the previous report three recommendations (one high and two medium) were made; our follow up audit revealed that all three recommendations have been fully implemented
E&R	HEEP	Moderate	Moderate	In the previous report four recommendations (one high and three medium priority) were made; our follow up audit revealed that three recommendations have been fully implemented and the remaining moderate recommendation superseded.
Cross-Cutting	Development of Council Land	Moderate	Moderate	In the previous report five recommendations (one high, three medium and one low priority) were made; our follow up audit revealed that three recommendations have been fully implemented and two recommendations (one high priority and one medium priority) have been partially implemented. This will be actioned by October 2015.
Children's Services	Schools Traded Services	Moderate	Moderate	In the previous report seven recommendations (one medium and six low priority) were made; our follow up audit revealed that five recommendations have been fully implemented; one recommendation has been partially implemented (medium priority); and one recommendation (finding three; low priority) has not been implemented. This follow up covers phase one of the audit which reported solely on control design findings. Phase two i.e. assessment of the controls operating in practice, will be undertaken after December 2015 when the new procedure have been introduced.
E&R	E&R Income Processes	n/a - Management Letter	n/a - ML	In the previous report seven recommendations (four high, two medium and one low priority) were made. Our follow up audit revealed that: five recommendations have been fully implemented; one high priority recommendation has been partially implemented; one recommendation has not been implemented. The recommendation relates to the development of the M3 Public Protection database. Revised implementation date September 2015.

Department	2014/15 Audit Title	Original Assurance Rating	Revised Assurance Rating	Position as at 31 <sup>st</sup> October 2015
Cross-Cutting	Programme Management	n/a - Management Letter	n/a - ML	As a management letter was originally issued, an assurance statement was not created. Internal Audit noted the following observations: there is a lack of consistency between Directorates in the engagement with the PMO because the use of the PMO is not mandated. As a result, the Transformation Project Officer has only a limited view of programme management activity at the Council and means the sharing of good practice may not be optimised. Although there is a template risk register and guidance available through the PMO on formulating and managing programme risks, risk structures may be inconsistent and the management of key risks may not be optimised. As the PMO is a light touch advisory function, there is no body within the Council who has oversight of the reporting lines for all core transformation programmes and ensure there is sufficient senior input into each programme. The Corporate Governance Group has begun to review the risk management arrangements which provide some corporate assurance on this key element of programme governance.

The remaining follow ups for 2015/16 will be undertaken during Q3 and Q4 2015-16.

## 5. Service Summaries: Reports Issued 1st April – 31st October 2015

### 5.1. Cross-Cutting/Corporate Reviews

#### a) Reports finalised

Report Title	Assurance Rating	Key issues arising
Sunnyside Community Gardens	<b>No Assurance</b>	Cross-Cutting across E&R, HASS and Chief Exec's (VCS team). Three critical findings were identified relating to financial management, governance and safeguarding. Four high findings related to financial management, benefits realisation, policies and procedures. A further three medium priority issues were identified.
Operational Business Continuity	<b>Limited</b>	Two high priority findings have been raised within this report regarding the business continuity arrangements in place for suppliers/partners/external establishments; and the alignment between the Council's business continuity framework and ICT resources and Disaster Recovery Plan.

b) Work in Progress as at 31<sup>st</sup> October 2015

Audit ref	Audit title	Status
CC15_7	Use of Agency Staff	Draft Report due January 2016
CC15_6	Information Assurance	Draft Report due January 2016

c) Work scheduled 1<sup>st</sup> November to 31<sup>st</sup> March

Audit ref	Audit title
CC15_2	Health & Safety
CC15_4	Digital Strategy and Technology Roadmap
CC15_8	Public Health*
CC15_3	Cross Council Savings
CC15_5	Anti-Social Behaviour

\*joint with Camden

## 5.2. Chief Executive's Office

a) Reports finalised

Report Title	Assurance Rating	Key issues arising
Payroll Controls (addition to plan)	n/a – management letter	Internal Audit was requested to undertake a review of the controls in place to prevent and identify salary overpayments with the payroll system, Several control weaknesses and two high priority findings were identified.
FPCH	In collaboration with HASS, Internal Audit have been offering on-going support and additional scrutiny to the review of FPCH.	

b) Work scheduled 1st November to 31st March

Audit ref	Audit title
CE15_1	Governance and Member Support
CE15_2	Islington Assembly Hall
CE15_4	Film Service

### 5.3. Environment and Regeneration

a) Reports finalised

Report Title	Assurance Rating	Key issues arising
Vehicle Maintenance (Extended Follow Up) (addition to plan)	<b>n/a – management letter but indicative of “no assurance”</b>	There remain several outstanding recommendations following the 2013/14 Internal Audit review of Council Fleet Management and this wider review of vehicle maintenance raised a further nine high risk issues.
Street Environment Services Agency Staff (addition to plan)	<b>Limited</b>	The two high priority recommendations relating to the vetting and identification of agency workers, and the accuracy of information held over the number of agency workers used. Matters arising within this report will be incorporated into the cross-cutting review of agency workers and consultants currently in progress.
E&R Purchase Orders (addition to plan)	<b>n/a – management letter</b>	As a management letter was originally issued, an assurance statement was not created. Internal Audit performed limited testing of the purchasing systems, which found these to be operating as intended and no areas of concern were identified surrounding the compliance with control or the legitimacy of spend. However, our review did identify areas where there is scope for improvement regarding the design and operation of purchasing systems/controls. It is also the opinion of internal audit that there may be scope for Management to streamline and/or combine purchasing systems in order to improve the efficiency and effectiveness of purchasing systems/control.

b) Work in Progress as at 31<sup>st</sup> October 2015

Audit ref	Audit title	Status
FR15_2	Trading Company - IcO	Draft Report due January 2016
FR15_7	M3	Fieldwork Q4 2016/17

c) Work scheduled 1<sup>st</sup> November to 31<sup>st</sup> March

Audit ref	Audit title
ER15_6	Leisure Centre Contract Arrangements
ER15_3	Waste Management
ER15_5	Flooding

d) Work which has been cancelled or deferred to 2016/17:

Audit ref	Audit title	Status
ER15_2	Libraries	Management requested that this be deferred due to service changes in 2015/16.

## 5.4. Housing and Adult Social Services

a) Reports finalised

Report Title	Assurance Rating	Key issues arising
Harry Weston TMO	<b>No Assurance</b>	Seven high risk issues were identified relating to financial management. A further four medium and four low risk issues were identified relating to governance issues and insurance arrangements.
Stock Procedures	Moderate	Two medium, three low priority findings. The medium risk findings related to the accuracy and completeness of stock management information; and the procedure in place for van stock takes.
Partners Unavailability (addition to plan)	Moderate	One high and three low priority findings were identified. The high priority finding related to the accuracy of reporting unavailability.
Housing Allocations	Moderate	The four medium priority findings relate to the consistency of the Housing Options manual with published guidance; the accuracy and supporting documentation available to calculate the housing needs points; the timeliness of the processing of Housing Register applications; and the lack of functionality in iWorld to allow management to monitor applications

Report Title	Assurance Rating	Key issues arising
Direct Payments	n/a – management letter	Overall, our review has not highlighted any areas of concern. We identified that a robust control environment is in place and controls were found to be operating effectively. We have raised one recommendation regarding the way in which the Direct Payment Support Service records and manages data/information surrounding services that it provides to service users. Whilst as part of this review we confirmed the existence of key controls in other areas of the self-directed care/personalisation process that interact closely with the management of direct payments (including assessment and eligibility, resource allocation, and financial assessments), a full and in-depth assessment was not performed in these areas. Internal Audit will consider undertaking additional reviews in the areas prescribed above going forward, further to discussions with management as part of the 2016/17 audit planning process.
FPCH (addition to plan)	In collaboration with Chief Executive's Department, Internal Audit have been offering on-going support and additional scrutiny to the review of FPCH.	

**b) Work in Progress as at 31<sup>st</sup> October 2015**

Audit ref	Audit title	Status
AD15_18	Holbrook TMO (addition to plan)	Final Report due January 2016
HASS15_3	Moving Forward Programme - Benefits Realisation	Final Report due January 2016
HASS15_1	Safeguarding Adults	Final Report due January 2016
HASS15_7	Housing Needs Service Overspend	Draft Report due Q4
HASS14_8_3	Bemerton TMO (addition to plan)	TBC with Tenant Management Team

**c) Work scheduled 1<sup>st</sup> November to 31<sup>st</sup> March**

Audit ref	Audit title
HASS14_2	Occupational Therapy Service
HASS14_8_4	Wenlake TMO
HASS14_8_4	Arch Elm TMO
HASS15_9	Repairs & Maintenance - in-house reintegration

## 5.5. Children's Services

### a) Reports finalised

Report Title	Assurance Rating	Key issues arising
Personal Budgets	<b>No Assurance</b>	Issues relate to eligibility criteria, consistency of the assessment approach, financial monitoring, supporting documentation and review care packages. Management action is being taken to address all of the issues identified.
Canonbury Primary	<b>No Assurance</b>	Six high priority findings have been identified relating to safeguarding and financial management. Whilst a number of high priority findings relating to control design/operational weaknesses were identified, we found no indication of impropriety, fraud or intentional wrongdoing. It was noted that the new School Business Manager has already begun to address some of the issues highlighted within this report. The school is being given post-audit advice and support from the School's Finance team.
The Factory Children's Centre	<b>No Assurance</b>	The critical priority finding relates to a lack of segregation of duties in internet banking. The nine high priority findings relate to: financial reporting; budget setting; budget monitoring; financial management; bank reconciliations; contract management; petty cash; staff taxi travel; registers of interest; trustee roles and responsibilities; risk register; ransomware incident; and IT assets.
Highbury School	Moderate	One high priority finding was identified relating to HR and Payroll and five medium priority findings related to financial management, data protection and safe security.
School Admissions	Substantial	Four low priority findings identified.
Stronger Families	n/a – management letter	<p>May 2015 - Management letter issued; assurance statement not created. Internal Audit were satisfied that the claim made for May 2015 was accurate based on the sample testing performed.</p> <p>September 2015 - Management letter issued; assurance statement not created. The Financial Framework for the expanded programme which began in April 2015 specifies that each local authority's Internal Auditor should verify a sample of results for each claim "before it is made". Historically, the Council has performed these checks retrospectively, however within each future claim window time should be assigned for the internal audit of the claim prior to its submission and no claim should be submitted without internal audit approval. The first claim for the expanded programme was made in September 2015 and Internal Audit were satisfied that the claim was accurate based on the sample testing performed.</p> <p>The next claim for the expanded programme will be made by the Council in January 2015.</p>

### b) Work in Progress as at 31<sup>st</sup> October 2015

Audit ref	Audit title	Status
CS15_2	Schools Support Services	Final Report due Q4
CS15_4	Asylum Seekers - Children	Final Report due Q4

Audit ref	Audit title	Status
CS15_1_7	Tufnell Park School	Final Report due Q4
CS15_7	Alternative Provision	Fieldwork Scheduled Q4

c) **Work scheduled 1<sup>st</sup> November to 31<sup>st</sup> March**

Audit ref	Audit title
CS15_8	Virtual School
CS15_1_6	The Bridge School
CS15_1_5	St Aloysius School
CS15_5	Post 16 Budget

a) **Work which has been cancelled or deferred to 2016/17:**

Audit ref	Audit title	Status
CS15_1_3	St John's Highbury Vale School	Deferred to accommodate review of The Virtual School
CS15_1_4	St Jude's and St Paul's School	Deferred to accommodate review of The Virtual School

## 5.6. Finance and Resources

a) **Reports finalised**

Report Title	Assurance Rating	Key issues arising
Bank Account Transfer	Moderate	The high priority finding related to the absence of segregation of duties for payroll BACS payments. The medium priority findings relate to protocols on banking and payments, access configuration for bank accounts, bank accounts transfer procedures. During our review, we observed that the Council maintains good control over its monthly bank reconciliations. This enabled all balance transfers to be traced, thereby significantly decreased the risk of balances having not been transferred accurately or completely
Supplier Amendment & Control (addition to plan)	n/a – management letter (findings indicative of limited assurance)	Management letter issued; findings indicative of limited assurance rating. The revised processes developed for the creation and amendment of suppliers provide scope for the creation of false suppliers as well as significant scope for mandate fraud to successfully take place. It is, however, noted that progress is being made in developing additional exception reports to identify duplicate suppliers

Report Title	Assurance Rating	Key issues arising
IT Shared Service Business Case (addition to plan)	n/a – management letter	Management letter issued; assurance statement not created. Internal Audit provided input into validating the IT Shared Service Business Case.

**b) Work in Progress as at 31<sup>st</sup> October 2015**

Audit ref	Audit title	Status
FR15_2	Trading Company - IcO	Joint work with E&R. Draft Report due January 2016
FR15_6	PCI Compliance	Fieldwork scheduled Q4
FR15_5	PSN Audit	Fieldwork scheduled Q4
FR15_7	M3	Joint work with E&R. Fieldwork scheduled Q4

**c) Work scheduled 1<sup>st</sup> November to 31<sup>st</sup> March**

Audit ref	Audit title
FR15_1	Continuous Auditing/KFS Audits
FR15_3	Income maximisation from Corporate Property