

**Report of: Corporate Director - Resources**

| <b>Meeting of:</b> | <b>Date</b>      | <b>Agenda item</b> | <b>Ward(s)</b> |
|--------------------|------------------|--------------------|----------------|
| Audit Committee    | 5th October 2021 | -                  | All            |

**SUBJECT: Internal Audit Annual Report 2020-21****1 Synopsis**

- 1.1 A continuous internal audit service provides independent assurance on the control environment that supports the delivery of Council objectives.
- 1.2 This report aims to provide Audit Committee with assurance over the Council's governance, risk management and internal control environment. It does this by demonstrating that the Internal Audit plan is being delivered. It highlights service areas where high priority recommendations have been made. It also comments on the level of implementation of audit recommendations by management.

**2 Recommendations**

- 2.1 To note the report.

### **3 Background**

- 3.1 The 2020-21 Internal Audit Plan was approved by Audit Committee in May 2020. This report presents a summary of the work that Internal Audit has undertaken as part of the 2020-21 audit plan.
- 3.2 The work of Internal Audit largely focuses on key risk areas as identified with the Council's Principal Risk Report. Delivery of the annual audit plan provides assurance on the actions being taken to mitigate principal risks.

### **4 Role of internal audit**

- 4.1 The Council's internal audit function is delivered in accordance with the Public Sector Internal Audit Standards (PSIAS). The PSIAS set out the requirements for public sector internal auditing. It encompasses the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework.
- 4.2 A professional, independent and objective internal audit function is a key element of good governance. The PSIAS defines internal auditing 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'*
- 4.3 The Council's framework of governance, risk management and internal control supports and underpins the delivery of strategic objectives. Internal Audit service provides Audit Committee with an independent and objective appraisal of the adequacy and effectiveness of this framework. This is achieved through the delivery of a risk-based audit plan. The service also provides consultancy and advice to management on risk and controls on an ad-hoc and proactive basis.
- 4.4 The Council's internal audit function operates as a shared service with the London Borough of Camden. The service operates a co-sourced service delivery model, where internal audit services are provided by in-house staff. A small portion of work is delivered by a co-sourced provider, currently PwC. The service also works closely and in alignment with the Risk Management and Corporate Investigation functions. This provides a number of benefits, including increased joint working and collaboration, and the sharing of information and intelligence.

### **5 Design and delivery of the 2020-21 Internal Audit Plan**

- 5.1 The service complies with the requirements of the PSIAS by ensuring that an annual risk-based audit plan is devised. The Council's robust processes to identify and articulate Principal Risks provide a solid foundation for the audit plan. The Council's Principal Risk Report is mapped to internal audit activity over a rolling three year period. This approach provides assurance that actions designed to mitigate key risks are being implemented effectively. It also provides the Council and other stakeholders with assurance that audit resource is correctly targeted to mitigate risks.
- 5.2 In addition risk based audits, a rolling cycle of reviews provides continued assurance on the Council's key financial systems. The audit plan also looks at areas where senior management have asked for independent assurance.

- 5.3 The 2020-21 Internal Audit Plan was approved by the Audit Committee in May 2020. The summer 2020 iteration of the Principal Risk Report was used to update the plan. We visited Directorate Management Teams in summer 2020 to ensure that this revised plan remained appropriate. This ensured that the impacts of the first wave of the Covid-19 pandemic were reflected in the plan. The plan was designed to provide assurance that key controls remained robust and operated effectively during a challenging period.
- 5.4 A number of other sources of information were used when drafting the 2020-21 plan. These included CIPFA good governance guidelines, audit plans of other local authorities, and intelligence from previous audit and anti-fraud activity.
- 5.5 A concerted effort is made to ensure that the plan is resident focussed. Where audit reviews do not directly address resident facing areas, they aim to provide assurance on overall governance arrangements. These reviews demonstrate that Islington is in a position to deliver its desired outcomes for residents.
- 5.6 Throughout the year, where required, the plan was flexed to respond to emerging risks. This flexibility allowed the team to provide proactive advice on risk and control as needed.

## **6 Outcomes and follow up activity**

- 6.1 The report details the outcomes of delivery of the 2020-21 audit plan at Appendices 1 and 2. It covers outcomes of follow up audits in Appendix 3. Summary details of high priority recommendations not previously reported to the Audit Committee have been included in Appendix 2. Internal Audit has received appropriate management responses to the recommendations made to address these risks. Some 2020-21 audit reports are still in draft awaiting management responses (as detailed in Appendix 1). However, delivery of the 2021-22 audit plan is underway.
- 6.2 We are pleased to report a positive response to final audit reports with satisfactory management responses to audit recommendations. Internal Audit routinely conduct follow up reviews to assess the level of implementation of audit recommendations. Where implementation of recommendations is prolonged, Internal Audit may provide support to auditees in-year.

## **7 Covid-19**

- 7.1 Due to the Covid-19 emergency, Internal Audit was required to temporarily pause completion of a number of core audit reviews. Internal Audit used this time to provide risk and control advice on the Council's Covid-19 response. This covered areas such as purchase ordering and the payment of suppliers. The Internal Audit team also supported the Council's Audit Manager (Investigations) related to Covid-19 related anti-fraud measures. While the core reviews were temporarily paused, the team provided ongoing assurance through the delivery of follow up activity.
- 7.2 To maximise productivity of the Internal Audit team during lockdown, key monitoring controls continued to be applied. These included outcomes monitoring and a weekly progress tracker detailing how auditor time had been spent. Internal Audit have successfully obtained electronic access to documents/audit evidence from auditees and held video meetings via Microsoft Teams.
- 7.3 The team reviewed the accuracy and completeness of the Council's claims for Covid-19 related funding/reimbursement from the government.

7.4 Throughout the pandemic, the Internal Audit team has sought to proactively support the Council to ensure that good governance remained in place.

## 8 Internal Audit assurance opinions

8.1 On completion of internal audit reviews, and where appropriate to do so, a statement of assurance is provided. These statements are detailed, where relevant, within Appendix 1 of this report.

8.2 There are four possible assurance opinions that can be provided:

|                              |  |
|------------------------------|--|
| <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.   |
| <b>Limited Assurance</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>Moderate Assurance</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>Substantial Assurance</b> | There is a sound control environment with risks to key service objectives being satisfactorily managed. Recommendations will normally only be Advice and Best Practice.  |

8.3 These conclusions are based on the number of critical and high priority risks identified in the report. The Committee receives details of high priority recommendations raised in audit reviews within Appendix 2 of this report.

## 9 Follow up activity

9.1 Internal Audit recommendations arising from planned audit work are followed up to ensure that they have been implemented. We report levels of implementation to the Audit Committee bi-annually. Follow up activity undertaken in 2020-21 is summarised in appendix 3 of this report.

9.2 Auditees will be invited to attend Audit Committee if a low level of implementation of audit recommendations is noted. Auditees who will be invited to the October 2021 meeting will be agreed with the Chair advance of the meeting.

## 10 Quality Assurance and Improvement Programme

10.1 One of the core principles of the PSIAS is quality assurance and continuous improvement. The PSIAS require the HIA to maintain a quality assurance and improvement programme (QAIP) covering all internal audit activity.

10.2 The Internal Audit service has developed a QAIP. It is designed to provide reasonable assurance to the various stakeholders of the service that Internal Audit:

- Performs its work in accordance with the PSIAS (including the Definition of Internal Auditing and Code of Ethics);

- Performs its work in accordance with the CIPFA Statement on the role of the Head of Internal Audit;
- Operates in an effective and efficient manner;
- Is perceived by stakeholders as adding value and continually improving its operations; and
- Undertakes both periodic and ongoing internal assessments, and commissions an external assessment at least once every five years.

### Internal assessments

- 10.3 In accordance with the PSIAS, internal quality and performance assessments are undertaken through ongoing and periodic reviews.
- 10.4 Ongoing assessments are conducted as a matter of course, in-line with the service's protocols and audit methodology. These assessments include:
- Management supervision of audit activity;
  - The application of a consistent audit methodology across audits;
  - Regular one-to-ones between audit management and auditors to review and monitor performance; and
  - The review and approval of all outputs by the Audit Manager and Head of Internal Audit (HIA).
- 10.5 Regular assessments are undertaken during the year to measure the impact of the annual audit plan. Biannual progress reports presented to the Audit Committee summarise progress against the annual plan and key outcomes of audit activity. Feedback from the Audit Committee is used to identify areas in which the service can add further value.
- 10.6 A Controls Board has been set up to facilitate an ongoing dialogue between Internal Audit and Directorate Management Teams. The Board monitors:
- The progress of the Internal Audit plan;
  - Emerging assurance themes;
  - Audit actions arising from internal and external audit work
  - Proactive advisory work; and
  - Escalation of areas of concern.
- The Director of Finance chairs the Controls Board and its members include Internal Audit and representatives from all directorates. Periodic summaries of open audit recommendations are presented to Controls Board by both Internal Audit and directorate representatives. These reflect outcomes of follow-up activity.
- 10.7 An annual assessment and assurance mapping exercise is undertaken in drafting the annual audit plan (see section 5 above).
- 10.8 Other periodic assessments include (but are not limited to):
- Annual self-assessments to ensure conformance with the PSIAS;
  - Regular feedback from senior management, including the Director of Finance and S151 Officer; and

- Benchmarking with other London Borough internal audit services, through the Cross Council Assurance Service and London Audit Group.

### External Quality Assessment

- 10.9 The PSIAS requires that an external quality assessment (EQA) is undertaken at least once every five years. This is designed to ensure continued application of the professional standards.
- 10.10 The Camden and Islington Shared Internal Audit Service was last subject to an independent EQA in summer 2016. This was undertaken by the London Borough of Croydon, and concluded that the service 'fully conforms' to the PSIAS. The protocols that were in place at the time of the last EQA continued to be implemented. Where necessary, they have been further enhanced in the period since.
- 10.11 In-line with the five-year requirement, the service is due to undergo a further EQA in 2021-22. The service is participating in the independent peer review scheme being administered by the London Audit Group. The next EQA will be carried out in late Q3 2021-22 following which outcomes will be reported to Committee.

### Continuous training and development

- 10.12 A key aspect of the QAIP is the continuous training and development of the Internal Audit team. While Internal Audit team members are qualified, knowledge and skills need to remain up to date. Therefore time for training activity is incorporated into the resourcing calculation when the annual audit plan is drafted.
- 10.13 Ongoing training takes place in largely three forms:
- External training offered by external organisations (e.g. CIPFA and the Institute of Internal Auditors). A training budget is held that allows each auditors to attend at least one course per annum;
  - Cross Council Assurance Service networking days. These take place approximately once every quarter and cover topical areas and best practice; and
  - In-house training via induction, daily working with peers and audit management. A varied workplan is in place for each auditor to ensure breadth of experience. All auditors liaise and cross-work with the Investigations and Risk Management teams.

### Review of the QAIP

- 10.14 The QAIP is reviewed on at least an annual basis by the HIA. The HIA's review of the service's performance for 2020-21 has identified a number of successes and achievements. It has also identified some areas where the delivery of internal audit services can be further enhanced.
- 10.15 The service introduced enhanced monitoring and reporting of open audit recommendations in-year. Periodic reports are presented through Controls Board to Directorate Management Team representatives, summarising all open audit recommendations per directorate. These reports also identify where audit recommendations remain open after their agreed implementation date.

- 10.16 The service has also continued to develop and increase collaboration and joint-working arrangements. These are in place with services and monitoring teams that form part of the Council's 'second line of defence'.
- 10.17 The service has supported the Council's response to, and recovery from, the pandemic (see section 7 above).

## 11 Head of Internal Audit Opinion for 2020-21

- 11.1 The PSIAS requires the HIA to provide an annual opinion. This can be used by the organisation to inform its annual governance statement.
- 11.2 The PSIAS, and CIPFA's guidance on the '*Role of the Head of Internal Audit in Public Service Organisations*' require that the HIA's overall opinion is objective. It should be supported by sufficient, reliable, relevant and useful information and evidence. The HIA opinion should also take into account the strategies, objectives and risks of the Council. It should consider the expectations of senior management and stakeholders, internal audit work and other sources of assurance.
- 11.3 The following four ratings and definitions have been devised to assist with forming and articulating the HIA annual opinion:

|                              |  |
|------------------------------|--|
| <b>No Assurance</b>          | There are fundamental weaknesses within the Council's systems of internal control, risk management and governance, which jeopardise the achievement of key objectives.   |
| <b>Limited Assurance</b>     | The adequacy and effectiveness of the overall arrangements for the Council's systems of internal control, risk management and governance are limited. There are a number of significant weaknesses that may put the achievement of key objectives at risk. |
| <b>Moderate Assurance</b>    | The adequacy and effectiveness of the overall arrangements for the Council's systems of internal control, risk management and governance are adequate, with some improvement required.   |
| <b>Substantial Assurance</b> | The overall arrangements for the Council's systems of internal control, risk management and governance are sound. Any improvement or enhancement recommended relates to best practice only.  |

- 11.4 The HIA annual opinion for 2020-21 is:

|                           |  |
|---------------------------|--|
| <b>Moderate Assurance</b> | The adequacy and effectiveness of the overall arrangements for the Council's systems of internal control, risk management and governance are adequate, with some improvement required. |
|---------------------------|--|

- 11.5 In summary, it is the HIA's opinion that an overall rating of Moderate assurance is appropriate. Although high risk rated recommendations were made in individual audit reviews, these were broadly isolated to specific systems or processes. None of the individual audit reviews had an overall classification of critical risk. This opinion is consistent with the previous year.

### Basis of the HIA opinion

- 11.6 The HIA opinion is supported by the delivery of the 2020-21 audit plan. It identified no overall critical concerns in respect of the Council's internal control, risk management or governance arrangements. Weaknesses identified during individual audits were not

significant, in aggregate, to the Council's governance arrangements and systems of internal control.

11.7 As detailed in section 5 above, a comprehensive approach was followed in drafting the 2020-21 audit plan. This ensured that the plan was resident focussed and aligned to the Council's Principal Risk Report. It focused on providing assurance regarding the key aspects of the Council's internal control framework.

11.8 Delivery of the plan has seen:

- 15 audit projects which provided assurance on the effectiveness of controls and mitigating actions relating to the Council's principal risks;
- Two projects focussed on the effectiveness and robustness of the Council's core financial controls;
- Nine projects focussed on establishments (schools and children's centres, Tenant Management Organisations and voluntary sector organisations);
- Two projects focussed on key risks facing local government and areas in which senior management asked for independent assurance;
- Five extended follow ups focussing on areas of principal risk; and
- 33 standard follow ups of previous audits.

11.9 Of 28 audit projects completed, two (one TMO establishment audit and three principal risk audits) attracted No Assurance ratings:

- Elthorne First Tenant Management Cooperative; and
- Safeguarding Adults – Governance and Records Management (including one critical priority finding in relation to records management).

The assurance rating for one review (Health and Safety – Asbestos) has not yet been finalised. This is because management have stated that they intend to provide further audit evidence.

Two further principal risk audits (Contract Management and Parking Services) attracted Limited Assurance ratings. The remainder of the reviews attracted a Moderate Assurance rating/advisory management letter.

11.10 Of the five extended follow ups completed, all achieved a good rate of implementation of audit recommendations. Two demonstrated fully completed implementation of agreed actions.

11.11 Of the 33 standard follow ups completed, all demonstrated a good rate of implementation of audit recommendations. Management engaged positively with Internal Audit and demonstrated that they had implemented recommendations or made progress towards implementation. Directorate Management Teams (DMTs) also engaged positively through Controls Board with the open recommendation tracker being shared by Internal Audit.

11.12 Satisfactory management responses to audit recommendations were obtained.

11.13 In addition to the outcomes of the 2020-21 audit plan, in reaching the HIA opinion, the following governance arrangements were also considered:

- The effectiveness of the Council's risk management framework is reviewed through benchmarking against other authorities, industry standards and best practice.
- The Council's risk awareness and risk culture has further matured in 2020-21. The impact of pandemic on the Council's risk profile was considered and articulated as soon



as the pandemic began. The position continued to be reviewed in-year. There was a continued awareness of principal risks and a good level of implementation of actions designed to mitigate them;

- Sound risk management processes have further embedded. For example, target and current risk scores are identified for principle risks. The Principal Risk Report includes individual action plans indicating the action being taken to achieve target risk scores;
- Management proactively seek Internal Audit advice in relation to risk and control design outside of delivery of the audit plan. This was evident at the onset of the pandemic, where Internal Audit input into new processes and services was sought;
- The HIA opinion is also informed by the wider sources of assurance listed within the Annual Governance Statement for 2020-21.

11.14 The HIA is satisfied that work undertaken during 2020-21 has enabled an opinion of 'moderate assurance' to be formed.

#### CIPFA guidance on the HIA opinion

11.15 CIPFA's '[Guidance for Heads of Internal Audit Annual Opinions for 2020-21](#)' was used to inform the HIA annual opinion for 2020-21. This provided guidance for forming a HIA annual opinion in view of the potential impacts of the Covid-19 pandemic. The guidance focussed on the scenarios where a limitation of scope may be required within the HIA's annual opinion. It included guidance on how to conclude if there was not sufficient assurance provided by internal audit work undertaken.

11.16 The HIA is satisfied that the work undertaken by Internal Audit during 2020-21 is sufficient. It has enabled a reasonable conclusion to be reached on the Council's control framework, risk management and governance arrangements.

11.17 The Internal Audit service was not redeployed through the pandemic: delivery of the 2020-21 plan continued in-year as planned. As a result, no limitation of scope was applied. Internal Audit also remained responsive to the needs of auditees and wider stakeholders. It continued to provide support and advice where needed as the Council adapted to the impacts of the pandemic.

## **12 Implications**

### 12.1 Financial implications

A sound system of internal controls forms a significant part of the governance framework and is essential to underpin the effective use of resources.

### 12.2 Legal Implications

There are no legal implications arising from this report.

### 12.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030

There are no environmental implications arising from the recommendations in this report.

### 12.4 Resident Impact Assessment

The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps

to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

A Resident Impact Assessment has not been completed because the decision currently being sought does not have direct impacts on residents.

### **13 Reason for recommendations**

13.1 To note outcomes of delivery of the audit plan at Appendices 1-3.

#### **Appendices:**

**Appendix 1** provides an update on outcomes of delivery of the 2020-21 audit plan.

**Appendix 2** summarises high priority findings arising from audit reviews finalised since last reported to Audit Committee in January 2021.

**Appendix 3** details the results of the follow up of previous audit recommendations.

Final report clearance:



**Signed by:**

David Hodgkinson – Corporate Director of Resources

**Date:**

21 September 2021

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**REPORT ENDS**