

Report of: Corporate Director - Resources

Meeting of:	Date	Agenda item	Ward(s)
Audit Committee	31 st January 2022	-	All

SUBJECT: Internal Audit Interim Annual Report 2021-22**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 Committee is asked to note the report.

3 Background

- 3.1 The 2021-22 Internal Audit Plan was approved by Audit Committee on 25th May 2021. This report presents a summary of the work that Internal Audit has undertaken as part of the 2021-22 audit plan and the position of the plan at 30 November 2021.
- 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 2021-22 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 to 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 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.
- 5.4 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 to date of the 2021-22 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.
- 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 Internal Audit assurance opinions

- 7.1 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.
- 7.2 There are four possible assurance opinions that can be provided:

No Assurance	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.
Limited Assurance	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.
Moderate Assurance	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.
Substantial Assurance	There is a sound control environment with risks to key service objectives being satisfactorily managed. Recommendations will normally only be Advice and Best Practice.

- 7.3 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.

8 Follow up activity

- 8.1 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 2021-22 is summarised in appendix 3 of this report.
- 8.2 Controls Board continues to meet six-weekly and tracks implementation of audit recommendations.
- 8.3 Auditees will be invited to attend Audit Committee if a low level of implementation of audit recommendations is noted. Auditees who may be invited to the January 2022 meeting will be agreed with the Chair advance of the meeting.

9 Internal Audit team capacity

- 9.1 Since August 2021, the team has been operating with a vacancy of one (1 FTE), reducing the team's capacity to deliver all planned audits in current financial year. We have tried to recruit an interim agency staff member to fill the role on a temporary basis as permanent recruitment gets underway. However, as reported to Committee in previous recruitment rounds, there continues to be a sector-wide shortage of qualified internal auditors and this approach has not been successful. We are currently widening our search using specialist agencies and hope to identify a suitable candidate for a January 2022 start to cover the role until the permanent post can be filled. The Audit Manager role is also being utilised to service the follow up audit plan and ad hoc requests for risk and control advice..

10 Implications

10.1 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.

10.2 Legal Implications

There are no legal implications arising from this report.

10.3 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.

10.4 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.

11 Reason for recommendations

- 11.1 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 2021-22 audit plan to date.

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

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

Final report clearance: **Authorised by David Hodgkinson 12/01/2022**

Signed by: David Hodgkinson – Corporate Director of Resources

Date: **12/01/2022**

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