

Finance

7 Newington Barrow Way

London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Audit Committee

Date: 13th September 2022

Ward(s): All

Subject: Internal Audit 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. To note the report.

3. Background

- 3.1. The Council has a statutory duty to maintain an adequate and effective Internal Audit function. Internal Audit's primary objective is to provide the Council, via the Audit Committee, with independent assurance that risk management, governance, and internal control processes are operating effectively.
- 3.2. The 2021-22 Internal Audit Plan was approved by Audit Committee in May 2021. This report presents the outcomes of the delivery of the 2021-22 audit plan.

- 3.3. The work of Internal Audit largely focuses on key risks identified within 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' 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 A number of other sources of information were used when drafting the audit plan. These included CIPFA good governance guidelines, audit plans of other local authorities, and intelligence from previous audit and anti-fraud activity.

- 5.3 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.
- 5.4 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.
- 5.5 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. Internal Audit outcomes

- 6.1. Internal Audit has received positive management responses to final audit reports and the recommendations made to address risks identified at audit.
- 6.2. 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. See **Section 8** of this report for further information on follow up activity.
- 6.3. This report details the outcomes of the 2021-22 audit plan at **Appendix 1**. Summary details of high priority recommendations not previously reported to the Audit Committee have been included in **Appendix 2**. Follow up activity undertaken in 2021-22 is summarised in **Appendix 3** of this report.

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 findings identified in the report. The Committee receives details of critical and 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. The service built on the enhanced monitoring and reporting of open audit recommendations introduced in 2020-21. Controls Board continues to meet six-weekly and tracks implementation of audit recommendations. Periodic reports are presented through Controls Board to Directorate Management Team representatives, summarising all open audit recommendations per directorate. These reports identify where audit recommendations remain open after their agreed implementation date.
- 8.3. In 2021-22, we started to report all open audit recommendations to CMB on a quarterly basis, which has galvanised clearance of aged audit recommendations and has significantly reduced the number of open recommendations.
- 8.4. A substantial number of open audit recommendations were closed in this period, reflecting a significant improvement in directorate-level engagement with audit recommendations as a result of this work. Some aged recommendations remain open and these continue to be followed up.
- 8.5. Auditees may be invited to attend Audit Committee if a low level of implementation of audit recommendations is noted.

9. Internal Audit team capacity

- 9.1. Between August 2021 and July 2022, the team operated with a vacancy of one full time auditor, reducing the team's capacity to deliver all planned audits within the financial year.
- 9.2. To mitigate the impact of this vacancy, the Audit Manager performed additional operational work on the follow up audit plan, grant certifications and ad hoc requests for risk and control advice. An agency auditor was also used to assist with follow up reviews.

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 Head of Internal Audit (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 facilitates an ongoing dialogue between Internal Audit and Directorate Management Teams about recommendations arising from internal audit work. 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 EQA for the Camden and Islington shared Internal Audit service took place in Quarters 2 and 3 of 2021-22 and reported in Quarter 4. The full outcome of the EQA, including the assessor's report, was reported to the Audit Committee in June 2022.
- 10.11. The assessment found that the Camden Islington Shared Internal Audit service **Generally Conforms** with the PSIAS. This is the highest available level of assessment for local authorities.
- 10.12. The summary assessment of compliance against the PSIAS demonstrated that the Internal Audit service is generally compliant with **every** standard.
- 10.13. Three low risk recommendations were made relating to the PSIAS. No high or medium risk recommendations were made. A further fourteen low priority good practice suggestions were raised, ten related to Internal Audit and four related to the Camden and Islington Audit Committees. Good practice suggestions are suggestions only, and each Council can take a view on whether it wishes to implement them.
- 10.14. Two areas of notable practice were highlighted, where activity reflected current best practice. The report recommended that these areas of notable practice should be shared with others. The notable practices identified were:
- The mapping of each council's Principal Risk Report with the audit plan to ensure a clear link between the strategic objectives of each authority and the audit plan; and
 - The use of a common findings report for schools' Internal Audit reviews to share learnings from schools' reviews.
- 10.15. Overall the assessors concluded that the Shared Internal Audit Service is well regarded at both authorities and that Internal Audit staff are qualified, professional, highly skilled and experienced. The assessors also concluded that that officers within the Shared Internal Audit Service (SIAS) work collaboratively and proportionately with stakeholders to add value and identify areas where improvements can be made. The assessors confirmed that the SIAS was operating effectively, with consistent application of the Internal Audit charter, audit methodology and standard working papers across the SIAS, and a dedicated Internal Audit Manager and team at both councils.

Continuous training and development

- 10.16. 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.

- 10.17. 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.

Head of Internal Audit Opinion for 2021-22

- 10.18. The PSIAS requires the HIA to provide an annual opinion. This can be used by the organisation to inform its annual governance statement.
- 10.19. 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.
- 10.20. The following four ratings and definitions have been devised to assist with forming and articulating the HIA annual opinion:

No Assurance	There are fundamental weaknesses within the Council’s systems of internal control, risk management and governance, which jeopardise the achievement of key objectives.
Limited Assurance	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.
Moderate Assurance	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.
Substantial Assurance	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.

- 10.21. The HIA annual opinion for 2021-22 is:

Moderate Assurance	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.
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10.22. In summary, it is the HIA's opinion that and 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

10.23. The HIA opinion is supported by the delivery of the 2021-22 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.

10.24. As detailed in **Section 5** above, a comprehensive approach was followed in drafting the 2021-22 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.

10.25. Delivery of the plan has seen:

- Seven audit projects which provided assurance on the effectiveness of controls and mitigating actions relating to the council's principal risks;
- Three projects focussed on the effectiveness and robustness of the Council's core financial controls;
- Fourteen projects focussed on establishments (schools and children's centres, Tenant Management Organisations and voluntary sector organisations);
- One project focussed on an area in which senior management asked for independent assurance in-year;
- Six grant claim assurance reviews;
- Eight extended follow ups focussing on areas of principal risk; and
- 51 standard follow ups of previous audits.

10.26. Of 39 audit projects completed, three (two principal risk audits and one schools establishment audit) attracted No Assurance ratings:

- Health and Safety – Asbestos Management;
- Use of Contingent Workers; and
- Laycock Primary School.

10.27. Five projects (three schools establishment audits, one TMO establishment audit and two principal risk audits) attracted Limited Assurance ratings:

- Access Controls and Rights;
- Local Business Resilience;
- Braithwaite House Tenant Management Organisation;
- Vittoria Primary School;
- Newington Green Primary School; and
- Samuel Rhodes Primary School.

10.28. Two schools reports have been issued and schools have stated that they intend to provide further audit evidence. As such, a final rating has not yet been assigned:

- St John's Highbury Vale Primary School; and
 - Duncombe Primary School.
- 10.29. Three TMO reports have been issued but are awaiting an initial management response. As such, a final rating has not yet been assigned:
- Holbrook Co-operative;
 - Miranda Estate Management Organisation; and
 - Spa Green Tenant Management Organisation.
- 10.30. The remainder of the reviews attracted a Moderate Assurance rating or an advisory management letter.
- 10.31. Of the eight extended follow ups completed, in six cases all agreed actions were implemented and in two cases a good rate of implementation was noted.
- 10.32. Of the 51 standard follow ups completed:
- 23 showed that all agreed actions were implemented;
 - 21 showed a good rate of implementation of audit recommendations;
 - Three showed a reasonable rate of implementation of audit recommendations; and
 - Four showed a limited rate of implementation of audit recommendations.
- 10.33. In addition to the outcomes of the 2021-22 audit plan, in reaching the HIA opinion, the following factors were also considered:
- The Council's risk awareness and risk culture has further matured in 2021-22. There was a continued awareness of principal risks and a good level of implementation of actions designed to mitigate principal risks;
 - The immediate risk arising from the pandemic reduced in 2021-22, as reflected in the Principal Risk Report. Internal Audit continued to include any new risks arising from the pandemic through individual reviews on the 2021-22 audit plan;
 - There is a willingness on the part of management to proactively seek Internal Audit advice in relation to risk and control design outside of delivery of the audit plan. This has been evidenced by the reviews the senior leadership and service management have requested outside of the 2021-22 audit plan;
 - The HIA opinion is also supported and informed by the wider sources of assurance listed within the draft Annual Governance Statement for 2021-22.
- 10.34. The HIA is satisfied that work undertaken during 2021-22 has enabled an opinion of Moderate Assurance to be formed.

11. Conclusion

- 11.1 Audit Committee is asked to note the report and appendices.

12. Implications

- 12.1 **Financial Implications**

12.1.1. 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**

12.2.1. There are no legal implications arising from this report.

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

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

12.4. **Equalities Impact Assessment**

12.4.1. 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.

12.4.2. An Equalities Impact Assessment is not required in relation to this report, because the decision currently being sought does not have direct impact on residents.

13. Conclusion and reasons for recommendations

13.1. Audit Committee is asked to note the delivery of the audit plan at Appendices 1 to 3.

Appendices:

- Appendix 1 provides an update on outcomes of delivery of the 2021-22 audit plan.
- Appendix 2 summarises high priority recommendations arising from audit reviews finalised since last reported to the Audit Committee in January 2022.
- Appendix 3 details the results of the follow up of previous audit recommendations.

Final report clearance:

Signed by: Dave Hodgkinson

Corporate Director of Resources

Date: 19th August 2022

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