

Finance

7 Newington Barrow Way

London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Audit Committee

Date: 30 January 2023

Wards: All

Subject: Internal Audit interim annual report 2022/23

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 the 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. Recommendation

- 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 2022/23 Internal Audit Plan was approved by Audit Committee on 22 March 2022. This report presents the outcomes of the delivery of the 2022/23 audit plan to date and the position of the plan at 30 November 2022.
- 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 2022/23 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 to date of the 2022/23 audit plan at **Appendix 1**. Summary details of high priority recommendations arising from 'limited' and 'no' assurance reviews, that were not previously reported to the Audit Committee, have been included in **Appendix 2**. Follow up activity undertaken in 2022/23 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 that attracted a 'limited' or 'no' assurance opinion, 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 2022/23 is summarised in **Appendix 3** of this report.
- 8.2. The council's 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. 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. Until 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. To mitigate the impact of this vacancy, an agency auditor was used to assist with follow up reviews. The Internal Audit team is now fully resourced.

10. Conclusion

- 10.1. To note outcomes of delivery of the audit plan.

11. Implications

11.1. Financial implications

- 11.1.1. A sound system of internal controls forms a significant part of the governance framework and is essential to underpin the effective use of resources.
- 11.1.2. There are no direct financial implications of the recommendations within this report.
- 11.1.3. The cost of delivering the audit plan is budgeted for within the council's overall budget.

11.2. Legal implications

- 11.2.1. There are no legal implications arising from this report.

11.3. Environmental implications and contribution to achieving a net zero carbon Islington by 2030

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

11.4. Equalities Impact Assessment

- 11.4.1. 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.
- 11.4.2. 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.

Appendices:

- **Appendix 1** provides an update on outcomes of delivery of the 2022/23 audit plan to date
- **Appendix 2** summarises high priority recommendations that were not previously reported to the Committee
- **Appendix 3** details the results of the follow up of previous audit recommendations

Final report clearance:

Signed by:

Corporate Director of Resources

Date:

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