

London Borough of Islington

Internal Audit Annual Report

2015/16



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1. Introduction

1.1. Purpose of this report

This report summarises the work that Internal Audit has undertaken during the financial year 2015/16 and provides details on the high risk and priority issues which could impact on the effectiveness of the internal control environment across the Authority.

1.2. The Role of Internal Audit

The role of Internal Audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal Audit is therefore a key part of the Council's assurance cycle and is just one of the sources of assurance available to the Council and Audit Committee.

Each year, we seek to adapt and enhance our approach in order to take in to account the Council's risk profile and changes in the system of internal control to ensure that our work remains focused on the areas of high risk and seeks to avoid duplication of effort, where there are other sources of assurance in operation, for example, external audit and Ofsted. Our Internal Audit Charter can be found at Appendix C.

1.3. Overview of the Internal Audit Approach

The Public Sector Internal Audit Standards (PSIAS) require that the Head of Internal Audit provides an annual audit opinion and report that can be used by the organisation to inform its governance statement. As such, this report also presents the annual opinion in respect of the adequacy and effectiveness of the organisation's system of internal control. The opinions provided in this report are based on the work completed by the in-house team across the Cross Council Shared Audit Service (with Camden) and our internal audit contractor, PWC.

We generally undertake individual projects with one of two objectives in mind:

- **Assurance Reviews:** The majority of projects are geared towards providing assurance to management on the operation of the Authority's system of internal control.
- **Specific Advice reports:** Other projects are geared more towards the provision of specific advice and support to management to enhance the efficiency, effectiveness and economy of the services and functions for which they are responsible.

We also undertake:

- **Compliance Audits:** We assist in the review of financial related regulations that the Council needs to comply with. This includes establishment audits (e.g. Schools, Tenant Management Organisations) and grant audits.
- **Proactive Anti-fraud and Forensic Reviews:** The internal audit work covers investigations into "internal" instances of suspected fraud, proactive anti-fraud work, and other activities, such as CAATs analysis, National Fraud Initiative (NFI) support, and training and awareness. The work delivered supplements investigative work undertaken by dedicated housing benefit and blue badge fraud teams in the council.

All audit reports include recommendations and actions agreed with management that will, if implemented, further enhance the control environment and the operation of the controls in practice. We formally follow up all of our work within 12 months of issuing a final report to monitor the levels of implementation of agreed actions.

1.4. Overview of work done in the year

The original Audit Plan for 2015/16 was approved by the Audit Committee in March 2015. We have continued to communicate closely with senior management to ensure that the audit reviews undertaken represent a focus on high risk areas, in the light of new and ongoing developments to ensure the most appropriate use of our resources. The final number of projects delivered was 47 after taking into account projects which were cancelled or deferred to 2016/17, requests for new (unplanned) projects by service management, and Internal Audit support given to Fraud and Risk colleagues. The results of the key performance indicators measuring the performance of the internal audit section for 2015/16 can be found on page 20.

1.5. Internal Audit Opinion

The Head of Internal Audit is satisfied that the work undertaken during 2015/16 enables him to form a reasonable conclusion on the Council's control framework, risk and governance arrangements. For the year ended 31st March 2016, it is the Head of Internal Audit's opinion that the adequacy and effectiveness of the Council's arrangements is as follows:

OVERALL OPINION	Moderate Assurance – overall the Council's systems for control, risk and governance are generally adequate with some improvement required. Medium risk rated weaknesses identified in individual assignments are not significant in aggregate to the system of internal control, high risk rated weaknesses identified in individual assignments are isolated to specific systems or processes, and none of the individual assignment reports have an overall classification of critical risk*. This opinion has been derived from consideration of the detail below.
CONTROL	Generally, the Council has sound systems of control in place. 19 (59%) of the 32 audits undertaken in the year with an assurance rating opinion, provided positive messages with 'substantial' or 'moderate' levels of assurance as to the adequacy and effectiveness of the internal control environment, while the number of reports providing a 'limited' or 'no' assurance was 13 (41%). In comparison, our 2014/15 annual report gave positive assurance in 69% of reports, and negative assurance in 31% with 'limited' or 'no' assurance ratings. Whilst five reports were given "no assurance"; subsequent follow up exercises have shown improvement in the control environment, with final follow up reviews due to be undertaken in 2016/17. It should also be noted that four of the no assurance reviews related to individual establishments and it is therefore not considered significant in aggregate to the system of internal control across the Council.
RISK	Following the implementation of a refreshed council wide approach to risk management in 2014/15, which resulted in a new framework, further refinements to the framework have been made during 2015/16 to define materiality and provide guidelines for risk escalation. Key aspects of the new approach have included the development of a top-down (CMB-owned risks) and bottom-up approach (service-owned risks) to risk management including the identification of key principal risks facing the Council as identified by CMB and senior management across each Department. Going forward, risk workshops will take place to embed refinements to the framework. Risk reviews will take place for each divisional management team every six months to help integrate and embed effective risk management within the culture of the Council.
GOVERNANCE	In 2015/16, the Council commissioned a piece of work by PWC to assist in the handling of the response to a data breach linked to the Parking Ticket Viewer application used by Environment and Regeneration. It was found that poor overall security control design and operation resulted in a vulnerable system that exposed information to unauthorised users. Key themes from the audit related to the role of ICT in business transformation, governance and accountability for ICT provision and risk appetite. A remedial action plan has been put in place and is being monitored by Digital Services.

*The five "no assurance" reports detailed 2.2 now subsequently show an improvement in control environment after initial follow up exercises in 2016/17 (see detail at page 8)

1.6. Report Assurance Ratings by Service Area

Service Area	Substantial Assurance	Moderate Assurance	Limited Assurance	No Assurance	Not Rated (Mgmt Letters)	Total
Cross-Cutting/Corporate Review		1	4		1	6
Chief Executive's Office	1	2			1	4
Environment and Regeneration	1		1	1*	4	7
Housing and Adult Social Services (HASS)		6		1*	3	10
Children's Services (Non-Schools)	1	2		2*	3	8
Children's Services (Schools)		2	1	1*	1	5
Finance and Resources (including DST)		2	2		2	6
Public Health		1				1
Total	3	16	8	5*	15	47

* follow up of recommendations subsequently undertaken now shows an improvement in control environment – see p8.

2. Key themes identified in 2015/16

2.1. Fundamental and Key Financial Systems

Each year Internal Audit carries out reviews of the Council's fundamental financial systems. This process allows External Audit (KPMG) to place reliance on the work performed by Internal Audit. It also allows Islington to limit External Audit fees spent on reviewing the authority's activities.

Through discussion with senior management, the 2015/16 scope was revised to focus on those systems which are the most important financially and carry the highest inherent risk of error. These priorities have been agreed with management based on the results of previous reviews. Additional controls have also been added to a number of key systems at the request of management, where issues have been identified in the period since the 2014/15 results were reported.

























The key financial systems reviewed during this audit were:

1. Cash Management
2. Payroll
3. Accounts Payable
4. Accounts Receivables – Sundry Income
5. Treasury Management
6. Council Tax
7. National Non-Domestic Rates (NNDR)
8. Parking

The systems above represent the Council's fundamental financial systems. These have been agreed with management on the basis that Council Tax, NNDR, Parking and Sundry Income represent a large component of the Authority's income; whilst Payroll and Accounts Payable are a significant proportion of the Authority's revenue expenditure. Systems which have historically had few or no issues, and senior management therefore consider them at low risk of error, have not been re-tested in 2015/16. These include: Housing Benefits, Abacus, Estates Parking, Housing Rents and Softbox. These systems will be re-assessed as part of the scoping for the 2016/17 review.

The 2015/16 overall opinion rating for the fundamental systems was 'moderate' assurance, which is consistent with the assurance rating provided in 2014/15. Generally, the key controls in the Council's key financial systems continue to operate effectively based on the sample testing performed. However, whilst overall Key Financial Systems are regarded as moderate assurance, Payroll was assessed as limited. We have raised two medium priority non-compliance issues and one new high priority control design issue. In prior periods, there was a high priority control design issue that had not been previously implemented relating to review of access to the Payroll system and Management have yet to fully implement the recommended actions. A full review of Payroll is planned for Q3 2016/17.

The direction of travel across the systems can be summarised as follows:

Department	Overall Opinion		Direction of Travel	Comments
	2014/15	2015/16		
Cash Management	Substantial Assurance 	Substantial Assurance 		
Payroll	Moderate Assurance 	Limited Assurance 		*Relates to a control design finding raised in 2014/15 which has not yet been addressed.
Accounts Payable	Limited Assurance 	Moderate Assurance 		*Relates to two control design findings raised in 2014/15 which were not agreed; management accept the residual risk
Accounts Receivables – Sundry Income	Substantial Assurance 	Substantial Assurance 		
Treasury Management	Substantial Assurance 	Substantial Assurance 		
Council Tax	Substantial Assurance 	Substantial Assurance 		
NNDR	Substantial Assurance 	Substantial Assurance 		
Parking	Substantial Assurance 	Moderate Assurance 		

Further detail can be found on page 19.

2.2.No Assurance Reports

a) Harry Weston TMO (HASS)

The original audit was completed in June 2015. Fifteen recommendations (including four high priority) were made. High risk issues related to financial management, governance issues and insurance arrangements. A follow up exercise was undertaken in May 2016 and it was confirmed that twelve recommendations (including all four high priority) have been fully implemented, two medium recommendations were outstanding and one recommendation had been superseded. As a result of the rate of implementation of recommendations, the level is now indicative of a **'moderate' assurance** rating, which suggests that the control environment, in relation to the specific areas covered by this audit, has improved on follow up.

b) Sunnyside (Environment & Regeneration)

The original audit was completed in December 2015. Three critical findings were identified which related to financial management, governance and safeguarding. Four high findings related to expenditure, HMRC implications, client benefit analysis, and policies and procedures. A follow up exercise was completed in July 2016 and it was identified that three recommendations (one critical, one high and one medium) have not been implemented, three recommendations (one critical and two high) have been partially implemented and four recommendations (one critical, one high and two medium) have been fully implemented. The outstanding recommendations relate to financial management, expenditure, governance arrangements and policies and procedures. This audit originally attracted a 'no assurance' rating. As a result of the rate of implementation of recommendations, the level is now indicative of **'limited' assurance**, which suggests that the control environment, in relation to the specific areas covered by this audit, has slightly improved on follow up, however, there remain some areas of weakness which require addressing in order for the control environment to be assessed as adequate. A further follow up has been proposed for November 2016.

c) The Factory Children's Centre (Children's Services)

The original audit was completed in November 2015. The critical priority finding related to segregation of duties. The high priority findings related to financial management, taxi travel, governance and IT. A follow up exercise was undertaken in June 2016 and highlighted that sixteen recommendations (including the one critical and eleven high priority recommendations) have now been fully implemented and three recommendations (one high and two medium priority) have been partially implemented. 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. A further follow up will be completed in November 2016.

d) Canonbury School (Children's Services)

The original audit was completed in October 2015. Six high priority findings were identified which related to HR, payment of self-employed individuals, income and staff reimbursements. 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. A follow up exercise was completed in May 2016 and it was noted that 17 recommendations have been fully implemented and one recommendation (High Priority) has been partially implemented. It should be noted that despite the recommendation not being fully implemented, the School has made significant progress towards implementing this recommendation and improving the controls and processes. 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. We believe the school should be commended for the prompt and thorough response to a challenging audit report.

e) Children's Personal Budgets (Children's Services)

Four high priority findings were identified relating to eligibility criteria, financial monitoring, recovery, and supporting documentation. As at August 2016, management confirmed that significant work has taken place to address the issues highlighted within the October 2015 report, and progress has been made towards implementing the nine recommendations. However, it is understood that some of the recommendations have not yet been fully implemented as they are reliant on the completion of wider service reviews. Consequently, Internal Audit will undertake a full follow up assessment in January 2017 to assess implementation.

2.3. Information Governance

In 2015/16, the Council commissioned a piece of work by PWC Cyber Security experts to assist in the handling of the response to a data breach linked to the Parking Ticket Viewer application used by the Environment and Regeneration Directorate. It was found that poor overall security control design and operation resulted in a vulnerable system that exposed information to unauthorised users. Key themes from the audit related to the role of ICT in business transformation, governance and accountability for ICT provision and risk appetite. A remedial action plan has been put in place and is being monitored by Digital Services.

Subsequently, a further piece of work was commissioned from PWC Cyber Security experts by Digital Services to review the security around information contained within Environment and Regeneration's Box application. This work is due to be completed in Q2 2016/17.

3. Management's response to implementing audit recommendations

3.1. Non-IT follow Ups

Progress in implementation of recommendations made in 2014/15 reports has been monitored by completion of follow up audits on all high risk recommendations made. This exercise has confirmed that of the 43 critical/high priority recommendations made in 2014/15, all have been either fully or partially addressed and controls improved where appropriate.

Out of 40 follow ups undertaken, one related to a report which was no assurance and 12 related to reports which were originally rated as limited assurance. Out of these 13 reports, audit follow up testing concluded that due to the high level of implementation of recommendations, the assurance level could be increased to moderate for twelve reports:

- Thornhill (originally no assurance)
- Brunswick TMO
- Taverner & Peckett TMO
- St. Peter's & St. Paul's RC
- Hugh Myddelton
- Network Security
- ICT Third Party Management
- ICT Change Management
- Holloway
- Right To Buy

- Sharepoint
- Leaseholder service & Major Works charges - Partners

The following review remained at limited assurance:

Department	Audit Title	Original Assurance Rating	Revised Assurance Rating	Outstanding Recommendations
E&R	Planning/S106/ Building Control	Limited	Limited	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: 5 high priority recommendations; 2 medium priority; 2 low priority. 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. 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 these controls have not yet been independently verified by Internal Audit.

3.2. IT Follow Ups from 2013/14

Internal Audit undertook IT follow up reviews in 2015/16, which were originally reviewed during 2013/14. An initial follow up was completed in June 2015 and a significant number of “not implemented” or “partially implemented” actions from the original reports were identified, including four high priority findings not implemented and three partially implemented high priority findings. The underlying root cause for the initial non-implementation of findings was due to re-design of the suite of IT management policies and procedures during 2014/15. The intention was to align these with the internationally recognised ISO27001/2 information security standards and to move to a policy-led approach supported by continuous auditing to promote sustainable compliance.

Internal Audit revisited the outstanding recommendations in February 2016 to establish the subsequent level of implementation following the embedding of the redesigned policies. Significant progress has been made by IT management, with only two partially implemented actions remaining. The residual risk for one of these actions (PARIS upgrade, high priority) has been accepted by management; the other was medium priority and was due to be implemented imminently.

Three of the audits originally attracted a ‘limited’ assurance rating. 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. The remaining five audits originally attracted a ‘moderate’ assurance rating. A full audit would have to be conducted in order to revise the assurance level. The assurance level therefore remains at ‘moderate’.

Title	Original Assurance Rating	Revised Assurance Rating	Actions Not Implemented			Actions Partially implemented			Actions Implemented		
			High	Med	Low	High	Med	Low	High	Med	Low
Change Management	Limited	Moderate							1	4	2
3rd Party Management	Limited	Moderate							3		
Network Security	Limited	Moderate					1		2	1	
IT Asset Management	Moderate	Moderate								3	2
Server Management	Moderate	Moderate								4	
PARIS Upgrade	Moderate	Moderate				1*					
Network Starters/Leavers	Moderate	Moderate							1	3	
Service Desk and Delivery	Moderate	Moderate								5	
		Total	0	0	0	1*	1	0	7	20	4

**partially implemented; residual risk accepted by management.*

4. Service Summaries: 2015/16 Final Reports

4.1. Cross-Cutting Reviews

Report Title	Assurance Rating	Critical	High	Medium	Low	Key issues arising
Digital Strategy & Technology Roadmap	Limited	0	4	4	0	The high rated findings related to ownership, delivery, financial planning, and prioritisation of projects and review against architectural principles.
Anti-Social Behaviour	Limited	0	4	1	1	Four high priority findings have been raised regarding Police and legislation, reporting and working with internal and external partners.
Information Assurance – 3 rd Party Contracts	Limited	0	2	2	1	The high priority findings relate to data processing and contractual terms.
Operational Business Continuity	Limited	0	2	2	0	Two high priority findings relate to suppliers/partners/external establishments and alignment with the ICT Disaster Recovery Plan. Internal Audit presented and discussed the Business Continuity to CMB in February 2016 and undertook an interim follow-up assessment in May 2016. It was identified that the Service has made good progress towards implementing recommendations; one recommendation has been fully implemented and three recommendations have been partially implemented. Internal Audit will undertake a full follow-up review in Q3 2016/17.
Health & Safety – Schools Governance	Moderate	0	1	2	1	The high priority finding relates to risk reporting and action plans.
Use of Agency Staff	n/a - management letter (indicative of limited)	0	3	2	0	A number of weaknesses were identified surrounding vetting and verification, policies and guidelines available to service areas, approval and the completion of post exercise assessments.

Cross Council Savings – deferred to Q1/2 2016/17 at management’s request.

4.2. Children's Services

Report Title	Assurance Rating	Critical	High	Medium	Low	Key issues arising
The Factory Children Centre	No (increased to Moderate at follow up in June 2016)	1	12	6	0	The original audit was completed in November 2015. The critical priority finding related to segregation of duties. The high priority findings related to financial management, taxi travel, governance and IT. A follow up exercise was undertaken in June 2016 and highlighted that sixteen recommendations (including the one critical and eleven high priority recommendations) have now been fully implemented and three recommendations (one high and two medium priority) have been partially implemented. 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. A further follow up will be completed in November 2016.
The Virtual School (additional to plan)	n/a – management letter (indicative of no assurance)	3	3	3	0	Issues related to pupil premium, HR, asset management, IT access and data security, declaration of interests and VAT. An early follow up will be undertaken in October 2016 to assess the progress of implementation.
Personal Budgets	No	0	4	4	1	Four high priority findings were identified relating to eligibility criteria, financial monitoring, recovery, and supporting documentation. As at August 2016, management confirmed that significant work has taken place to address the issues highlighted within the October 2015 report, and progress has been made towards implementing the nine recommendations. However, it is understood that some of the recommendations have not yet been fully implemented as they are reliant on the completion of wider service reviews. Consequently, Internal Audit will undertake a full follow up assessment in January 2017 to assess implementation.
Asylum Seekers - Children	Moderate	0	1	3	0	One high priority finding was identified relating to management information which impacts the independent verification of figures.
Alternative Provision	Moderate	0	1	2	1	The high priority recommendation relates to referral and placement of students
Review of Schools Support Services	n/a - management letter	0	0	2	0	

Report Title	Assurance Rating	Critical	High	Medium	Low	Key issues arising
School Admissions	Substantial (plus subsequent mgmnt letter issued in January 2016)	0	1	1	4	Four low priority findings identified in August 2015. A subsequent exercise was undertaken in January 2016 to review the adequacy of processes relating to school admissions data.
Stronger Families	Internal Audit have provided on-going assurance during 2015/16 regarding the grant claim					

Post-16 budget was cancelled with management agreement.

4.3. Children's Services (Schools)

School	Assurance Rating	Critical	High	Medium	Low	Key issues arising
Canonbury	No Assurance (subsequently raised to moderate on follow up)	0	6	7	5	Six high priority findings were identified which related to HR, payment of self-employed individuals, income and staff reimbursements. A follow up exercise was completed in May 2016 and it was noted that 17 recommendations have been fully implemented and one recommendation (High Priority) has been partially implemented. It should be noted that despite the recommendation not being fully implemented, the School has made significant progress towards implementing this recommendation and improving the controls and processes. As a result of the rate of implementation of recommendations, the level is now indicative of 'moderate' assurance . We believe the school should be commended for the prompt and thorough response to a challenging audit report.
The Bridge	Limited	0	3	4	5	Three high priority findings were identified relating to HR, self-employed individuals and starters and leavers.
Highbury Grove	Moderate	0	1	5	1	One high priority finding was identified relating to self-employed individuals; and five medium priority findings relating to purchasing, data protection and safe security.
Tufnell Park	Moderate	0	1	8	1	One high priority finding was identified relating to HR.

St Aloysius due for completion September 2016. St John's Highbury Vale and St Jude's & St Paul's schools were deferred to 2016/17 with management agreement.

4.4. Environment and Regeneration

Report Title	Assurance Rating	Critical	High	Medium	Low	Key issues arising
Vehicle Maintenance (Extended Follow Up)	n/a – management letter (indicative of no assurance ; increased to limited assurance on follow up)	0	9	0	0	Management letter originally issued in August 2015 highlighted that there remain several outstanding recommendations following the 2013/14 Internal Audit review of Council Fleet Management and the wider review of vehicle maintenance raised a further nine high risk issues. An interim follow up review completed in May 2016 identified that from the total of eleven recommendations for Fleet Management, two recommendations (including one high priority) have been fully implemented, one medium recommendation has not implemented and six recommendations (including one high priority) have been partially implemented. For Vehicle Maintenance, the review has identified that from a total of nine high priority recommendations, one has been fully implemented, one has not been implemented and seven recommendations have been partially implemented. This audit originally attracted a 'No' assurance rating. Internal Audit acknowledges actions already implemented and on-going efforts to implement those actions remaining outstanding. As a result of the rate of implementation of recommendations, the assurance level at the interim stage of the audit is indicative of 'limited' assurance. This suggests that the control environment, in relation to the specific areas covered by this audit, has improved on follow up. A final follow up will be undertaken in November 2016.
Sunnyside	No (indicative of no assurance ; increased to limited assurance on follow up)	3	4	3	0	The original audit was completed in December 2015. Three critical findings were identified which related to financial management, governance and safeguarding. Four high findings related to expenditure, HMRC implications, client benefit analysis, and policies and procedures. A follow up exercise was completed in July 2016 and it was identified that three recommendations (one critical, one high and one medium) have not been implemented, three recommendations (one critical and two high) have been partially implemented and four recommendations (one critical, one high and two medium) have been implemented. The outstanding recommendations relate to financial management, expenditure, governance arrangements and policies and procedures. A further follow up has been proposed for November 2016. This audit originally attracted a 'no assurance' rating. As a result of the rate of implementation of recommendations, the level is now indicative of 'limited' assurance, which suggests that the control environment, in relation to the specific areas covered by this audit, has slightly improved on follow up, however, there remain some areas of weakness which require addressing in order for the control environment to be assessed as adequate.

Report Title	Assurance Rating	Critical	High	Medium	Low	Key issues arising
Street Environment Services Agency Staff (addition to plan)	Limited	0	2	1	2	The high priority recommendations relate to vetting and accuracy of data.
Trading Company – iCo (cross-cutting with Finance)	n/a - management letter	Findings related to company strategy to deliver aims and objectives; planning and setting up the company; risk management; activity level business plans; criteria for the selection of activities; financial processes and reporting; and conflicts of interest. Due to the nascent nature of ICo we haven't sought to prioritise our findings.				
Transport Infrastructure Code	n/a - management letter	0	1	2	0	The high priority recommendation relates to completeness of asset data.
E&R Purchase Orders (addition to plan)	n/a - management letter	0	1	3	1	The high priority finding related to the scheme of delegation.
Leisure Centre Contract Arrangements	Substantial	0	0	1	2	

Flooding was deferred due to similar coverage of areas in Business Continuity; Libraries was cancelled at management request and Waste Management has been deferred to 2016/17.

4.5. Housing and Adult Social Services

Report Title	Assurance Rating	Critical	High	Medium	Low	Key issues arising
Harry Weston TMO	No (increased to Moderate at following up in May 2016)	0	7	4	4	The original audit was completed in June 2015. Fifteen recommendations (including four high priority) were made. High risk issues related to financial management, governance issues and insurance arrangements. A follow up exercise was undertaken in May 2016 and it was confirmed that twelve recommendations (including all four high priority) have been fully implemented, one medium priority recommendation had been partially implemented, one medium recommendation had not been implemented and one recommendation had been superseded. As a result of the rate of implementation of recommendations, the level is now indicative of a ' moderate ' assurance rating, which suggests that the control environment, in relation to the specific areas covered by this audit, has improved on follow up.
Holbrook TMC (additional to plan)	n/a – management letter (indicative of limited assurance)	0	3	4	0	High priority recommendations related to arrears position, HMRC deductions and Cyclical Account.
Moving Forward Programme	Moderate	0	1	2	2	The high priority recommendation related to an absence of a documented benefits management tool to ensure and demonstrate the realisation of non-financial benefits and to assess the impact of changes upon them.
Safeguarding Adults	Moderate	0	1	2	1	The high priority recommendation related to classification of cases.
Partners Unavailability (additional to plan)	Moderate	0	1	0	3	The high priority finding related to the risk of inaccuracy in unavailability reporting.
Stock Procedures	Moderate	0	0	2	3	
Housing Allocations	Moderate	0	0	4	1	

Report Title	Assurance Rating	Critical	High	Medium	Low	Key issues arising
Wenlake TMO	Moderate	0	0	6	6	
Direct Payments	n/a - management letter	0	0	1	0	
Housing Needs Service Overspend	n/a - management letter	0	0	4	0	

Three TMO's were deferred to 2016/17. Occupational Therapy Service was cancelled in agreement with management.

4.6. Chief Executive's Office

Report Title	Assurance Rating	Critical	High	Medium	Low	Key issues arising
Payroll Controls (additional to plan)	n/a - management letter (indicative of limited assurance)	0	2	0	0	Internal Audit was requested to undertake a review of the controls in place to prevent and identify salary overpayments with the payroll system. See also Continuous Auditing (page 17).
Islington Assembly Hall	Moderate	0	1	3	2	The high priority finding related to business planning & marketing.
Film Service (additional to plan)	Moderate	0	0	2	4	
Governance and Member Support	Substantial	0	0	1	2	

Review of grant funded organisation (Sunnyside) was undertaken – see Environment and Regeneration

4.7. Finance and Resources

Report Title	Assurance Rating	Critical	High	Medium	Low	Key issues arising
Continuous Auditing/KFS Audits	Moderate – overall	The key controls in the Council's financial systems continue to operate effectively based on the sample testing performed. In five of the eight systems tested, substantial assurance has once again been given. Accounts Payable has been given moderate assurance, improved from the limited assurance attained in prior periods from on-going issues in the control design, regarding the lack of a Purchase Order System. We have raised 12 non-compliance issues (six medium and six low priority). We have also raised three new control design issues (one high rated, one medium and one low rated finding). The high rated design issue relates to the value and frequency of payroll overpayments. In prior periods, there were three control design issues made that had not been previously implemented. Two of these remain high priority; one relating to invoice validation through a three-way match and one relating to access to the Payroll system. In addition, a control design issue remains to ensure that there is adequate validation of new suppliers prior to set up.				
Bank Account Transfer	Moderate	0	1	3	3	The high priority finding related to segregation of duties.
Supplier Amendment & Control (addition to plan)	n/a – management letter	0	3	0	0	Management letter issued August 2015; findings indicative of limited assurance rating. A separate review of changing suppliers' bank details was completed in July 2016.
DST						
PCI Compliance	Limited	0	2	3	0	The high priority findings relate to the inventory of system components and completion of self-assessment questionnaire.
PSN Audit	Limited	0	2	1	0	The high priority findings relate to vulnerability scans and patch management.
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.				

The planned review of income maximisation from corporate property and M3 was cancelled at management's request.

4.8. Public Health





Report Title	Assurance Rating	Critical	High	Medium	Low	Key issues arising
Public Health	Moderate	0	1	3	0	The high priority finding relates to completeness of the Contracts Register.

5. Review of the Effectiveness of Internal Audit





The internal audit service operates in line with the PSIAS and the service is measured against a number of key performance indicators as reported below. Our Internal Audit Charter can be found at Appendix C.

KPI Target	Results
% of the annual audit plan completed compared to what was planned. Target 90% (draft reports) by 31st March 2016; 100% (final reports) by 30th April 2016	The audit plan was 95% complete to draft report stage (90% target) on 31 March 2016 and 93% complete to final report stage (100% target) on 30 April 2016. Two reports remain outstanding due to management delays. In addition, several unplanned special reviews have been undertaken at management's request.
% of Audit applicable reports followed up within financial year. Target 100%	100% achieved. 40 applicable audit reviews relating to 2014/15 required follow up in 2015/16.
Audit areas where the level of assurance has risen at the follow-up stage: 90%.	92% achieved. For the thirteen no/limited assurance follow ups completed, the assurance level for twelve reviews improved from 'no' or 'limited' to 'moderate'
Customer Satisfaction results	100% overall very good or good response from clients.

Key to Assurance Levels

Level of Assurance	
Substantial 	There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice.
Moderate 	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.
Limited 	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.
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.

Recommendations

Risk rating	
Critical 	<p>Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale & service performance. Mass strike actions etc</p> <p>Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council, members or officers.</p> <p>Cessation of core activities, Strategies not consistent with government's agenda, trends show service is degraded. Failure of major Projects – elected Members & SMBs are required to intervene</p> <p>Major financial loss – Significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council; Critical breach in laws and regulations that could result in material fines or consequences</p>
High 	<p>Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale & performance of staff.</p> <p>Significant impact on the reputation or brand of the organisation ; Scrutiny required by external agencies, external audit etc. Unfavourable external media coverage. Noticeable impact on public opinion</p> <p>Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome med – term difficulties</p> <p>High financial loss Significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences</p>
Medium 	<p>Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale & performance of staff.</p> <p>Moderate impact on the reputation or brand of the organisation ; Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage.</p> <p>Significant short-term disruption of non-core activities. Standing Orders occasionally not complied with, or services do not fully meet needs. Service action will be required.</p> <p>Medium financial loss - Small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences</p>
Low 	<p>Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale</p> <p>Internal Review, unlikely to have impact on the corporate image. Minor impact on the reputation of the organisation</p> <p>Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines.</p> <p>Minimal financial loss – Minimal effect on project budget/cost. Minor breach in laws and regulations with limited consequences</p>

Internal Audit Shared Service

Internal Audit Charter

Introduction

Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of London Boroughs of Camden and Islington.

It assists London Boroughs of Camden and Islington in accomplishing their objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the risk management, control, and governance processes operating in both councils.

Definitions

For the purposes of this Charter, the following definitions apply:

The Board: The governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At both LB Camden and Islington this shall mean the Audit Committee.

Senior Management: Those responsible for the leadership and direction of the Councils.

Role & Purpose

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’.

The standards for ‘proper practices’ in relation to internal audit, are laid down in the Public Sector Internal Audit Standards 2013 (‘the Standards’).

Each Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Councils that these arrangements are in place and operating effectively. Each Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

The role of internal audit is best summarised through its definition within the Standards, 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'

Professionalism

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to LB Camden and Islington relevant policies and procedures and the internal audit activity's standard operating procedures manual.

Authority

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Audit Committee.

Organisation

The responsibility for maintaining an adequate and effective system of internal audit within LB Camden & Islington lies with the respective Directors of Finance, as the authority's Chief Finance Officers (S151 Officer).

For the Councils, internal audit is provided by internal council employees and through a partnership arrangement with PWC.

The Head of Audit is responsible for effectively managing the internal audit activity in accordance with the 'Definition of Internal Auditing', the 'Code of Ethics' and 'the Standards'.

The Head of Audit reports functionally to the Audit Committees, and organisationally to the Director of Finance who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of each Council's affairs.

The Head of Audit has direct access to the Chief Executives who carry the responsibility for the proper management of their Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

Where it is considered necessary to the proper discharge of internal audit function, the Head of Audit has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit Committees).

The Head of Audit will communicate and interact directly with the Audit Committees, including in executive sessions and between Audit Committee meetings as appropriate.

Internal Audit Resources

The Head of Audit will be professionally qualified (CIPFA, CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The Director(s) of Finance will provide the Head of Audit with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Head of Audit will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Head of Audit can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

Senior Management and the Audit Committee will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be submitted to senior management and the Audit Committee for approval. The Head of Audit will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to senior management and the Audit Committee.

If the Head of Audit, the Audit Committee or Senior Management considers that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Director(s) of Finance accordingly.

The Head of Audit must seek approval from the Audit Committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

Independence and objectivity

The internal audit activity, including the Head of Audit will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity, including the Head of Audit:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to senior management and the Board;
- reports functionally to the Board;
- reports in their own name;

- rotates responsibilities for audit assignments within the internal audit team;
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements; and
- ensures the planning process recognises and addresses potential conflicts of interest through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles.

The Head of Audit will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to Senior Management and the Board. The nature of the disclosure will depend upon the impairment.

To ensure the independence of the Head of Audit is safeguarded and that remuneration and performance assessment are not inappropriately influenced by those subject to audit, the Chief Executive will both countersign and contribute feedback to the performance appraisal of the Head of Audit. Feedback will also be sought from the Chair of the Governance Committee.

Responsibility

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of each Council's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit include:

- Consistency of operations or programmes with established objectives and goals and effective performance.
- Effectiveness and efficiency of operations and employment of resources
- Compliance with significant policies, plans, procedures, laws, and regulations
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Safeguarding of assets.

Internal Audit is responsible for evaluating all processes ('audit universe') of the entity including governance processes and risk management processes. It also assists the Audit Committee in evaluating the quality of performance of external auditors and maintains proper degree of coordination with internal audit.

Internal audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Audit Committee or management, as appropriate.

Based on its activity, Internal audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to Senior Management, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee.

Internal audit plan

At least annually, the Head of Audit will submit to the Audit Committee an internal audit plan for review and approval, including risk assessment criteria. The internal audit plan will include timing as well as budget and resource requirements for the next fiscal year. The Head of Audit will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Audit Committee. Prior to

submission to the Audit Committee for approval, the plan may be discussed with appropriate senior management. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

Scope of Internal Audit Activities

The Head of Audit is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

A range of internal audit services are provided to form the annual opinion. The approach is determined by the Head of Audit and will depend on the level of assurance required, the significance of the objectives under review to the organisations success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls. Additionally, proactive fraud reviews will be incorporated within the plan to deter and detect fraud, covering known areas of high risk.

Managers are required to report all suspicions of theft, fraud and irregularity to the Head of Audit. The Head of Audit manages and controls all investigations and will ensure that investigators are fully trained in carrying out their responsibilities.

Where there is evidence that Council staff are committing fraud, internal audit will liaise with Human Resources and the department concerned, invoking disciplinary action as appropriate. The decision on whether to invoke criminal proceedings will be made by the Head of Audit in conjunction with the relevant officers.

The monitoring of the Council's Anti-Fraud Strategy will be the responsibility of the Head of Audit, as part of the monitoring of the internal audit annual plan.

Internal audit also facilitate the Council's participation in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

Reporting and monitoring

A written report will be prepared and issued by the Head of Audit or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Audit Committee.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

Periodic assessment

The Head of Audit is responsible also for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.

In addition, the Head of Audit will communicate to senior management and the Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.