**Annual Internal Audit Report & Opinion Statement 2021/22**

**30th June 2022**

# Contents

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## 1. Introduction

**1.1    The Role of Internal Audit**

1.1.1   Internal Audit (IA) provides an independent assurance and consultancy service that underpins good governance. This is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon (LBH). It is also a requirement of the Accounts and Audit (Amendment) Regulations 2021 that the Authority undertakes an effective IA to evaluate the effectiveness of its risk management, internal control and corporate governance processes, taking into account public sector internal auditing standards or guidance.

1.1.2   IA gives an objective opinion to the Council on whether the control environment is operating as expected. IA provides assurance to the Council by focusing on the key risks to the achievement of the organisation's objectives. As a result, IA does not just comment on whether the controls operate, but whether they are the right controls to mitigate risk and enhance the likelihood of achieving the overall aims of the service.

1.1.3   The UK Public Sector IA Standards (PSIAS) promote further improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. They stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement (AGS).

**1.2    The Purpose of the Annual Internal Audit Report and Opinion Statement**

1.2.1   This annual report summarises the main findings arising from all of the 2021/22 IA work. The report also provides IA key stakeholders including the Council's Corporate Management Team (CMT) and the Audit Committee, with an opportunity to review the performance of the IA service on the delivery of the 2021/22 IA Plan and on the effectiveness of the IA service.

1.2.2   The UK PSIAS require the HIA to deliver an annual IA report and opinion statement that can be used by the organisation to inform its AGS. Therefore, in setting out how it meets the reporting requirements, this report and opinion statement also outlines how IA has supported the Authority in meeting the requirements of the Accounts and Audit (Amendment) Regulations 2021.
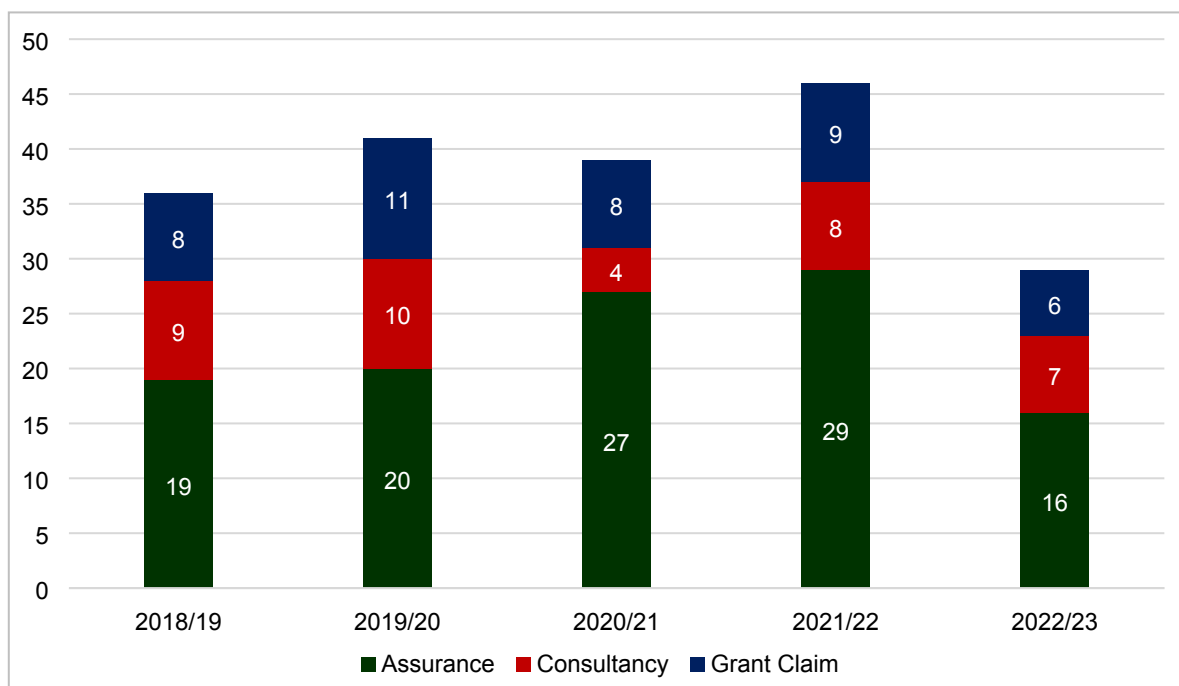
## 2. Executive Summary

2.1     The HIA reports that **the 2021/22 IA assurance plan was 59% complete to final report stage by 30th June 2022**. All but 2 audits had been started and were at an advanced stage. The issues relating to resourcing have been reported to the Audit Committee.

2.2     Although IA is a statutory service and delivery of the IA work is essential, the precise timing of IA work is generally not time critical. The statutory duty of the IA function is to provide independent and objective assurance to underpin the HIA opinion statement which supports the Council's Annual Governance Statement.

2.3     For the purpose of the Council's Annual Governance Statement, following work undertaken and from the other sources of assurance referred to in para 3.7:

> *It is the HIA's opinion that overall IA can provide **REASONABLE** assurance that the system of internal control that has been in place at Hillingdon Council for the year ended 31st March 2022 accords with proper practice, except for the significant internal control issues referred to in para 3.8 (see para 3.11 for further details).*

2.4     In total **29** pieces of IA work have been fully delivered as part of the 2021/22 IA plan. This included **16** assurance reviews, **7** consultancy reviews and **6** grant claim audits. A further **11** assurance reviews and **1** consultancy review are nearing completion.

2.5     An analysis of IA work over the past 5 years shows a **decrease** in completed assurance work this year because of significant staff vacancies towards the end of the year.
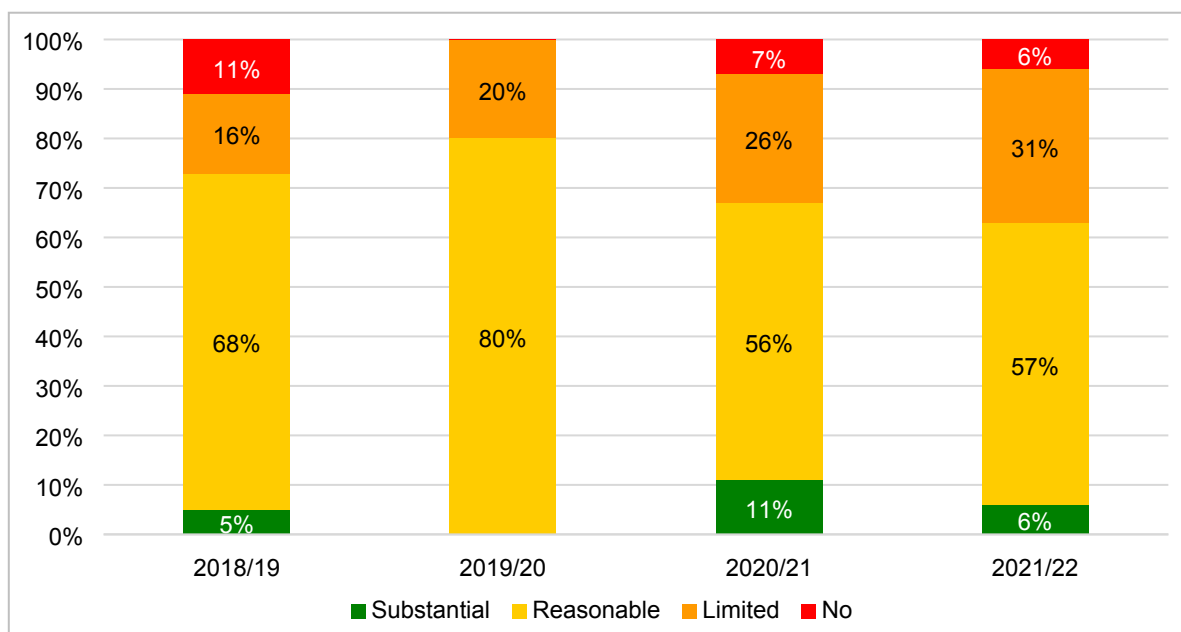
### Chart 1 ~ IA Work Completed



2.6     **63%** of the completed 2020/21 assurance reviews resulted in a **SUBSTANTIAL** or **REASONABLE** assurance opinion and **37%** of assurance reviews resulted in **LIMITED** and **NO** assurance opinions; this provides positive assurance to the Audit Committee and CMT that IA resource is focused on the right areas, often highlighted by senior management as known areas of concern.

2.7     All of the 2020/21 **HIGH** and **MEDIUM** risk recommendations raised by IA were accepted by the relevant manager's/risk owners, with positive action proposed to **TREAT** all these risks (this includes the issues highlighted in the quarterly IA progress reports presented to the Audit Committee and CMT during 2021/22). Further analysis of the IA assurance levels issued in 2021/22 along with a breakdown of the risk recommendations raised can be found at sections 4 and 5 of this report respectively.

2.8     Table 1 provides a breakdown of assurance opinions issued by IA over the last 4 years. This partly demonstrates a broadly consistent picture, although this is within the context of fewer completed assurance reviews in 2021/22 compared to 2020/21:

**Table 1 ~ IA Assurance Levels**

| Assurance Level | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|
| SUBSTANTIAL | 1 (5%) | 0 (0%) | 3 (11%) | 1 (6%) |
| REASONABLE | 13 (68%) | 16 (80%) | 15 (56%) | 9 (57%) |
| LIMITED | 3 (16%) | 4 (20%) | 7 (26%) | 5 (31%) |
| NO | 2 (11%) | 0 (0%) | 2 (7%) | 1 (6%) |
| TOTALS | 19 | 20 | 27 | 16 |

2.9　　The Chart 2 below highlights that IA assurance reviews continue to be focussed on the areas of greatest risk:

**Chart 2 ~ IA Assurance Levels**



2.10　　IA follows up on all HIGH and MEDIUM risk recommendations. An exercise was undertaken just after the year end which showed that of the **61** recommendations still outstanding **15** were on track for completion by the due date, **26** would be partly completed by the due date and **20** were not likely to be implemented by the due date.

2.11　　This year the IA team has gone through significant change as the Head of Internal Audit & Risk Assurance, Audit Manager and other experienced team members left the Council to pursue positions with other organisations. These vacancies have created challenges for the remaining team members and capacity and support has been sought from an interim HIA and an external partner, Mazars. Indications are that this is working well, but it came on stream too late to impact on delivery of audit work during the year. It is planned to recruit a permanent HIA and another experienced team member during 2022/23 and to continue to work with an external partner going forward. We aim to appoint candidates that are not only highly skilled and proficient but can also deliver change and add value.

## 3. Head of Internal Audit Opinion Statement 2021/22

### 3.1    Background

3.1.1    The HIA opinion statement is provided partly to help inform the Chief Executive and Leader of the Council to assist them in completing the AGS, which forms part of the statutory Statement of Accounts for the 2021/22 year. The AGS provides public assurances about the effectiveness of the Council's governance arrangements, including the system of internal control. The HIA opinion statement meets the Authority's statutory requirement under Regulation 6 of the Accounts and Audit (Amendment) Regulations 2021 and is in line with the UK PSIAS.

### 3.2    Scope of Responsibility

3.2.1    LBH is responsible for ensuring its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty, under the Local Government Act 2000, to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

3.2.2    In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk. Specifically, the Council has a statutory responsibility for conducting a review of the effectiveness of the system of internal control on at least an annual basis.

### 3.3    The Purpose of the System of Internal Control

3.3.1    The Council's system of internal control is designed to manage risk to a reasonable level rather than to completely eliminate the risk of failure to achieve policies, aims and objectives. Consequently, it can only provide a reasonable, and not absolute, assurance of effectiveness.

3.3.2    The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's vision, strategic priorities, policies, aims and objectives. It also is designed to evaluate the likelihood of those risks being realised, their impact, and to manage them efficiently, effectively and economically.

### 3.4    Annual Opinion Statement on the Effectiveness of the System of Internal Control

3.4.1    The HIA opinion is based primarily on the work carried out by the Council's IA service during 2021/22, as well as a small number of other assurance providers. Where the work of the Counter Fraud Team (CFT) has identified weaknesses of a systematic nature that impact on the system of internal control, this has been considered in forming the HIA opinion.

3.4.2    The IA Plan for 2021/22 was developed primarily to provide CMT and the Audit Committee with independent assurance on the adequacy and effectiveness of the systems of internal control, including an assessment of the Council's corporate governance arrangements and risk management framework. The work IA also supports the work of the Corporate Director of Finance with his role under S151 of the Local Government Act 1972.

### 3.5    Basis of Assurance

3.5.1    All of the IA reviews carried out in 2021/22 have been conducted in accordance with the UK PSIAS. An independent External Quality Assurance (EQA) review of the IA service, finalised in September 2017, confirmed that **Hillingdon's IA service FULLY conformed** to the PSIAs, complying with each of the statements of good practice and core principles. The EQA stated that IA has a very positive impact on the governance, risk and control environment within the organisation. A further EQA is due to be carried out in the autumn of 2022.

3.5.2   In line with the UK PSIAS, the HIA is professionally qualified and suitably experienced. The skills mix within the rest of the in-house IA team has evolved during the year with every single member of the IA team either fully qualified or actively studying for a relevant professional IA qualification. As a result, the 2021/22 IA resources fulfilled the UK PSIAS requirements in terms of the combination of professionally qualified and suitably experienced staff.

**3.6     Qualifications to the Opinion**

3.6.1   During 2021/22 the Council's IA service:

- Had **unrestricted access to all areas and systems** across the authority;

- Received **appropriate co-operation from officers and members**; and

- Had only just **sufficient resources to enable it to provide adequate coverage** of the authority's control environment to provide the overall opinion.

As a consequence, **there are no qualifications to the 2021/22 HIA opinion statement**.

**3.7     Other Assurance Providers**

3.7.1   In formulating the HIA overall opinion on the Council's system of internal control, the HIA has taken into account the work undertaken by other sources of assurance, and their resulting findings and conclusions.

3.7.2   These other assurance providers which included:

- Coverage of the **Corporate Fraud Team**;

- The work of the **Corporate Risk Management Group**;

- The work of the **Hillingdon Information Assurance Group**;

- The **Audit Committee** - an IA assurance review of the effectiveness of the Audit Committee was reported in 2020/21;

- **External inspections** i.e. Ofsted; and

- Coverage by **External Audit** (EY) including grant claim certification i.e. HB Subsidy.

**3.8     Significant Internal Control Weaknesses**

3.8.1   IA is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise during the year.

3.8.2   **There were several significant control weaknesses identified by IA during 2021/22**. Work is ongoing to strengthen the Council's control environment in relation to the significant control weaknesses identified. These included (but are not limited to):

1.   **Allotments** - The 2021/22 IA assurance review of Allotments identified that there was no clear overarching strategy that outlines the Council's commitment and approach to managing and maintaining allotments within the borough safely and no policy in place to ensure governance, information, and expectations from both the Council and residents over the usage and maintenance of allotments. Although some processes were found to be documented within the terms and conditions agreement on how to maintain and use the allotment, there was no evidence for how the processes would be handled by Council officers. Further, allotment sites are not visited or inspected by any Council staff to ensure that plots are being used for their intended purposes or even being used at all.

2. **Planning Enforcement -** The 2021/22 IA assurance review of Planning Enforcement was able to give limited assurance over the key risks to the achievement of objectives for Planning Enforcement. This included prioritisation and response to complaints, investigating prosecution cases and tracking of enforcement deadlines. The Planning & Regeneration (P&R) Management Team is currently undertaking a service review with a view to ensuring that the Planning Enforcement Team is appropriately resourced to meet service demand moving forward. P&R Management is also currently developing a programme for improved performance management to improve staff performance and manage team progression. Management is also currently undertaking a process review for PACE and prosecution proceedings and is developing clear and formal risk assessment criteria and planning checks to ensure that all planning enforcement cases are assessed and prioritised with a consistent threshold applied to enable efficient use of resources.

3. **Section 106** - The 2021/22 IA assurance review of Section 106 and Community Infrastructure Levy identified that there was no single central register for recording all S106 agreements from 2015 and governance and overview of current developments with pending, active, or outstanding obligations where trigger points are not proactively identified when they have been reached. Further, the audit review was unable to verify that all appropriate legal and planning compliance fees were paid by the developer in a timely manner due to incomplete management information. The Service has implemented a specialist system, Exacom, on the 9th November 2021, which has the functionality (once fully embedded) to address the risks raised during this review. Exacom is now being used to record and collect information for all new agreements (both financial and non-financial). A process is also underway to upload historic obligations, and the 1st phase (back to 1/1/2015) is due to be completed in June 2022.

4. **Birth Registration Service** - The 2021/22 IA assurance review of Birth Registration Service identified required enhancements to the service's booking system to produce management information to further improve management oversight and escalation. At the time of the audit review, the system was unable to generate robust performance information, with this having to be manually collated. Positive management action is underway to develop a bespoke module for the new case management system.
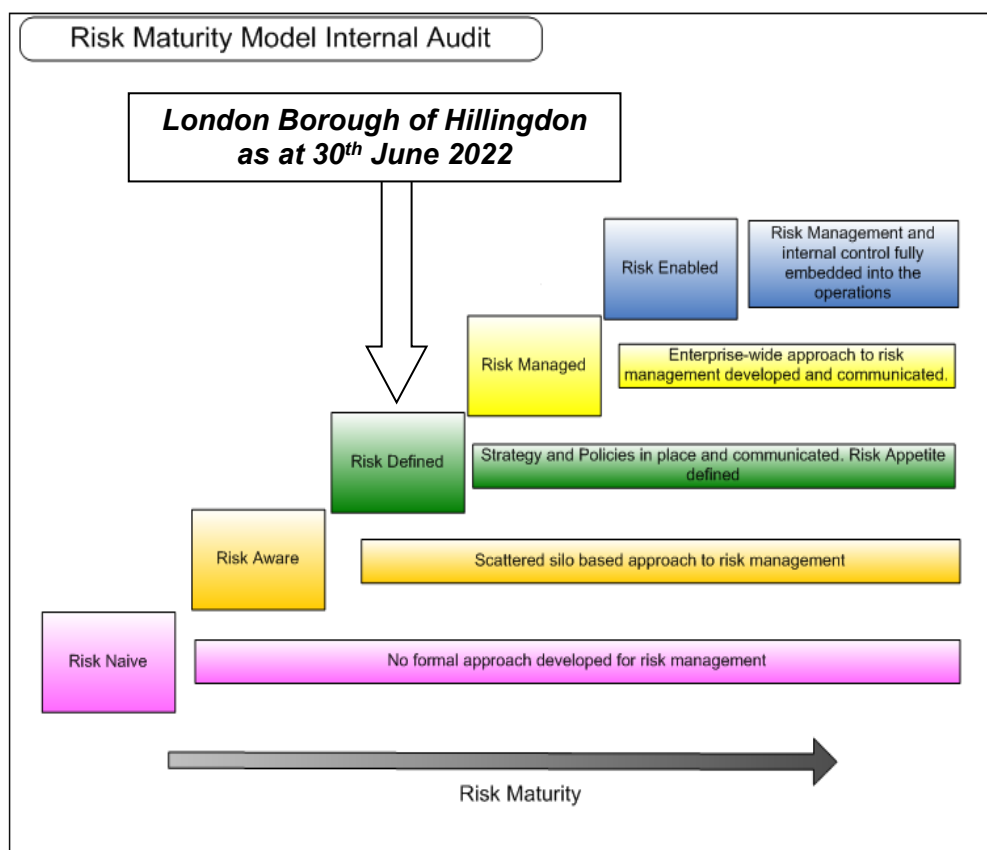
## 3.9 Risk Management

3.9.1 Risk Management is the process by which risks are identified and evaluated so that appropriate risk treatment measures can be applied to reduce the likelihood and impact of risks materialising. In the event a risk materialises, this could inhibit the Council to achieve its objectives and fulfil its strategic priorities. The IA opinion on the effectiveness of the Council's Risk Management arrangements is based on **the Chartered Institute of Internal Auditors' Risk Maturity Model**. IA has identified that there is good Risk Management practice in an increasing number of areas of the Council's operations, but the issue remains that some services' understanding of Risk Management could be improved. IA plans to offer staff and services more risk management training in the fufture.

3.9.2 IA's review of the Council's Risk Management arrangements concluded that the approach to Risk Management at a strategic level was very effective, but risk identification and management at an operational level remains that of a scattered, silo-based approach with inconsistent practices.

3.9.3 The Risk Management Policy and Guidance (2020–23) was last updated and approved in August 2020. It was reviewed by the Corporate Risk Management Group (CRMG), before going on to be considered by the Corporate Management Team (CMT) and Audit Committee. The policy contains comprehensive detail including clarity of roles, responsibilities and accountabilities of Members and Officers in relation to Risk Management.

3.9.4 The Council has a well-established CRMG in place which meets quarterly and discusses strategic (corporate) risk issues in a sufficient manner. Strategic risks are monitored and

reviewed by Directorate (Group) SMTs, CMT as well as the Audit Committee generally on a quarterly basis. In addition, whilst it is the responsibility of all employees to identify and manage risks effectively, there are designated risk champions representing each Group with accountability assigned for each identified strategic risk to own and manage, in liaison with the lead Cabinet Member.

3.9.5   The IA assessment of **the Council's Risk Management maturity is** that the Council was *Risk Defined* as at 30th June 2022. In our opinion, the Council demonstrates all the main characteristics of a *Risk Defined* maturity level and the key requirements that apply to this maturity level are now in place. However, the Council needs to further improve the process for identifying and recording risks at an operational level. IA's judgement in this area is that risks below Group level are not being consistently identified, treated and escalated across the organisation. Further, service risk registers, whilst encouraged, are not in place for many areas across the Council. We have therefore concluded that the approach to managing operational risks still requires significant work if the Council is to achieve a *Risk Managed* enterprise-wide approach to risk management.

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**Chart 3 ~ Chartered Institute of Internal Auditors' Risk Maturity Model**



**3.10    Corporate Governance**

3.10.1 The 2021/22 IA opinion on the effectiveness of the Council's corporate governance arrangements is based on the **Langland's Report on 'Good Governance Standard for Public Services'**. The Langland's report contains best practice governance in the public sector. A full review was carried out and reported in 2019/20 and a brief summary of IA's updated assessment is highlighted in the table below:
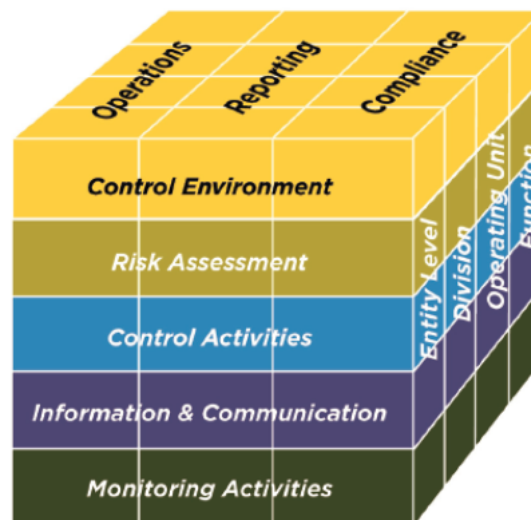
**Table 2 ~ 2020/21 Corporate Governance Assessment**

| Langland's Governance Principles | IA Assessment of Hillingdon |
|---|---|
| 1. Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users. | **REASONABLE Assurance**<br><br>The Council was found to have a clear vision, strategies, and objectives in place. These are currently being revised, refreshed and approved. However, there was no evidence that the Council had engaged in an external review of its effectiveness. The Local Government Association operates a 'peer challenge' programme with the aim of providing external review, challenge, and shared learning. Council could consider utilising such programmes to provide external assurance of its organisational values, behaviour, and operations, promoting knowledge sharing. |
| 2. Good governance means performing effectively in clearly defined functions and roles. | **SUBSTANTIAL Assurance**<br><br>The Council has an up to date Constitution in place that is communicated to residents, officers and Members. Each directorate is supported by a Scheme of Delegations (SoD) document, which clearly specifies decision-making responsibilities across all management levels. This is currently being reviewed and updated following the recent changes in office structure. These are further supported by a Procurement and Standing Order Rules document, specifying levels of authority for procurement exercises.<br><br>Statutory chief officer roles were all found to be in place at the Council, with none currently vacant. |
| 3. Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour. | **SUBSTANTIAL Assurance**<br><br>The Code of Conduct documents clearly define the expected behaviour and values of officers and Members. These documents also define the relationship between officers and Members and are enshrined within the Constitution. Behaviour is further governed by processes to monitor conflicts of interest and complaints for officers and Members, alongside Counter Fraud, Anti-Corruption, Anti-Bribery, Whistleblowing, and Gifts and Hospitality arrangements. A Standards Committee is in place to oversee these arrangements. |

| Langland's Governance Principles | IA Assessment of Hillingdon |
|---|---|
| 4. Good governance means taking informed, transparent decisions and managing risk. | **SUBSTANTIAL** Assurance<br><br>There are strong arrangements in place for decision making at the Council, where decisions are made in accordance with the Cabinet SoD and directorate SoDs. Each decision is supported by an assessment of risks and financial and legal implications, with minutes and reports of each Cabinet and committee meetings published for transparency.<br><br>The Council's Executive Scrutiny Committee also considers each Cabinet decision and has the ability to 'call-in' a decision so that it can be re-considered. This has recently been replaced with a series of Select Committees specialising in different areas of Council work.<br><br>Finally, there is a robust risk management process in place to highlight and act upon emerging risks. This culminates in the production of an Annual Governance Statement. |
| 5. Good governance means developing the capacity and capability of the governing body to be effective. | **SUBSTANTIAL** Assurance<br><br>A range of tools and training is in place to assist the Council's Members in the performance of their roles, including the provision of mandatory training courses. Each new Member is given an induction to the role and is subsequently provided with opportunities for development each year, which is managed by a dedicated officer.<br><br>Further, the effectiveness of Cabinet and committees is considered periodically, as and when changes are identified as being needed. |
| 6. Good governance means engaging stakeholders and making accountability real. | **SUBSTANTIAL** Assurance<br><br>Key achievements, performance and objectives are communicated to residents, officers and other Council stakeholders using a variety of methods. These messages are enhanced by processes in place for such stakeholders to engage with the Council through surveys, consultations, petitions, and other methods of feedback, creating accountability for the Council's actions. |

## 3.11    Internal Control

3.11.1 The IA opinion on the Council's internal control system is **based on the best practice on Internal Control from the Committee of Sponsoring Organisations of the Treadway Commission** (COSO). The diagram below details the elements of the COSO internal integrated control framework and categorises all **58 HIGH** and **MEDIUM** risk IA recommendations raised during the 2020/21 year:

**Chart 4 ~ The COSO Internal Control Framework**



3.11.2  Using the components of the COSO model, the recommendations raised in 2021/22 have been categorised as:

- Control Environment – **13** Recommendations (**3 High** and **10 Medium**) **22%**;

- Risk Assessment – **3** Recommendations (**3 Medium**) **5%**;

- Control Activities – **24** Recommendations (**6 High** and **18 Medium**) **42%**;

- Information & Communication – **4** Recommendations (**4 Medium**) **7%**; and

- Monitoring Activities – **14** Recommendations (**4 High** and **10 Medium**) **24%**.

3.11.3  As expected the majority of IA recommendations related to improvements over control activities. These include recommendations relating to written procedures, authorisations, reconciliations and segregation of duties. The other components have a relative proportionate share of recommendations. As noted at para 3.9, there are some weaknesses within the operational risk management processes. Similarly, it should not be inferred that risk assessment is completely robust.

3.11.4  The individual IA assurance ratings help determine the overall audit opinion at the end of the financial year, although other factors such as implementation of IA recommendations have a bearing too. From the IA work undertaken in 2021/22, and the other sources of assurance referred to in para 3.7, **it is the HIA's opinion that overall IA can provide REASONABLE assurance that the system of internal control that has been in place at the Council for the financial year ending 31st March 2022 accords with proper practice**, except for the significant internal control issues referred to in para 3.8.

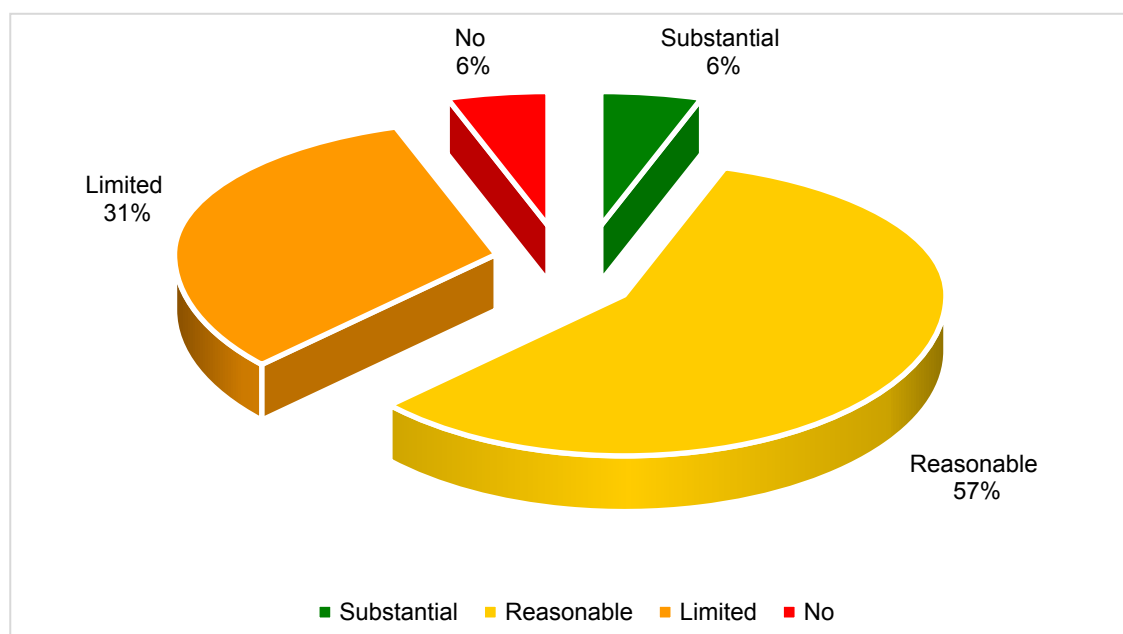## 4. Analysis of Internal Audit Activity 2021/22

### 4.1    Internal Audit Assurance Work 2021/22

4.1.1  The 2021/22 IA assurance work is summarised by the assurance level achieved (definitions of the IA assurance levels are included at **Appendix B**) as per the table below:

**Table 3 ~ Comparison of Assurance Levels from 2018/19 to 2021/22**

| Assurance Level | 2021/22 IA Assurance Reports | % Split 2021/22 | Comparison | | |
|---|---|---|---|---|---|
| | | | 2020/21 | 2019/20 | 2018/19 |
| **SUBSTANTIAL** | 1 | 6% | 3 (11%) | 0% (0) | 5% (1) |
| **REASONABLE** | 9 | 57% | 15 (56%) | 80% (16) | 68% (13) |
| **LIMITED** | 5 | 31% | 7 (26%) | 20% (4) | 16% (3) |
| **NO** | 1 | 6% | 2 (7%) | 0% (0) | 11% (2) |
| **TOTAL** | **16** | **100%** | **100% (27)** | **100% (20)** | **100% (19)** |

4.1.2    The pie chart below depicts the levels of assurances achieved based on a percentage of the total 2021/22 assurance audits completed by IA:

**Chart 5 ~ Assurance Levels for 2021/22**



4.1.3    Chart 5 highlights the positive news for the Council that 63% of the areas audited in 2021/22 were assessed by IA as providing **SUBSTANTIAL** or **REASONABLE** levels of assurance and 37% of areas audited in 2021/22 were assessed as **NO** and **LIMITED** levels of assurance over the management of the key risks to achieving the service objectives. This is positive given the risk based focus of IA coverage and the increased alignment of IA work to the key risks facing the Council and demonstrates consistency in the control environment across the Council in 2021/22.

4.1.4    The individual assurance reviews carried out during 2021/22 are fully listed at **Appendix A** which highlights the assurance levels achieved (as outlined at **Appendix B**) and provides an analysis of the IA recommendations made (in accordance with the risk ratings as outlined at **Appendix C**).
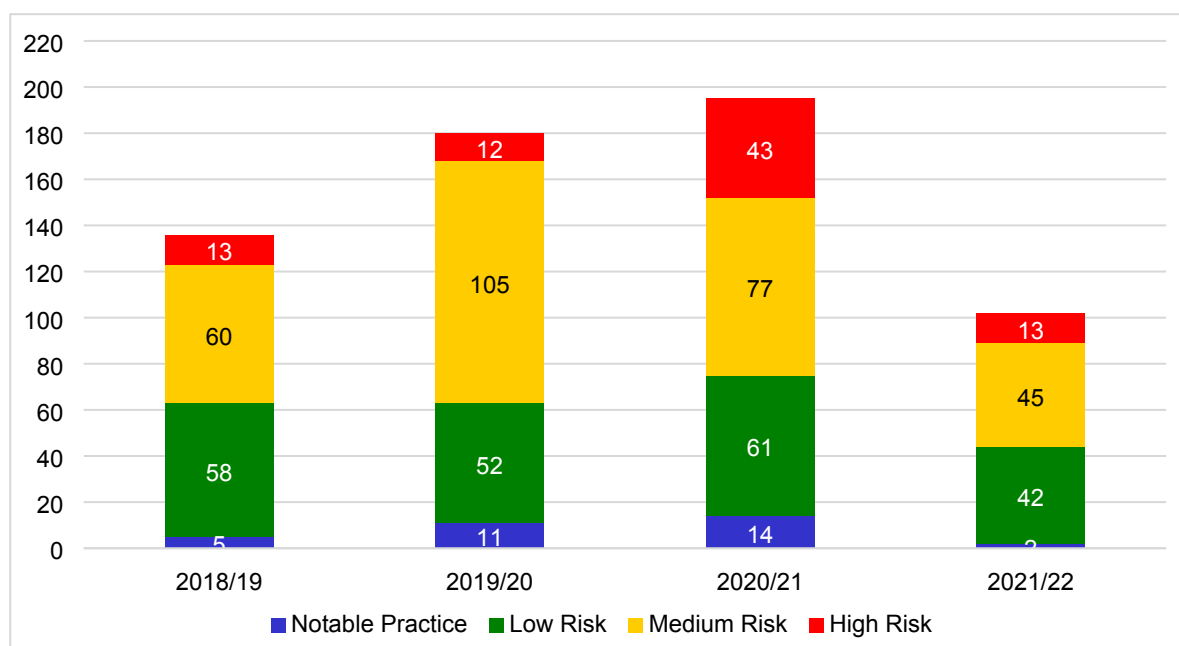
4.1.5    Within the **16** IA assurance reviews completed in 2021/22, we raised **100** IA assurance recommendations in total as set out in the table below:

**Table 4 ~ IA Recommendations Comparison**

| Risk Rating | 2021/22 | | Comparison | | |
|---|---|---|---|---|---|
| | Recommendations | % | 2020/21 | 2019/20 | 2018/19 |
| HIGH | 13 | 13% | 24% (43) | 7% (12) | 10% (13) |
| MEDIUM | 45 | 45% | 42% (77) | 62% (105) | 46% (60) |
| LOW | 42 | 42% | 34% (61) | 31% (52) | 44% (58) |
| TOTALS | 100 | 100% (100) | 100% (181) | 100% (169) | 100% (131) |
| NOTABLE PRACTICE | 2 | - | 14 | 11 | 5 |

4.1.6    The breakdown of all 2020/21 IA recommendations (plus notable practices) by risk rating (as outlined at **Appendix C**), is provided in the bar chart below, including a comparison with prior years data:

**Chart 6 ~ IA Recommendations Comparison**



## 4.2    Internal Audit Consultancy Work 2021/22

4.2.1    **The number of consultancy reviews in 2021/22 was 8** pieces of work as detailed in **Appendix A**. Consultancy work continues to provide advice and guidance across the Council. This, in addition to the enhanced role that IA now has in helping Council services improve, is a sign of the achievement of the collaborative approach that IA strives to deliver.

4.2.2    In addition to the traditional consultancy reviews, this type of work includes IA staff sitting on project/ working groups, whilst ensuring IA staff are clear about whether they are there in an assurance or advisory capacity. This approach is helping increase IA's knowledge of corporate developments which feeds into the risk based deployment of IA resource on assurance work. Also, participation in project/ working groups is helping individual IA staff develop, whilst at the same time increasing the value IA provides to the Council.

**4.3       Quality Assurance and Improvement Programme 2021/22**

4.3.1    In accordance with the UK PSIAS Attribute Standard 1300 and the IA Charter, a Quality Assurance and Improvement Programme (QAIP) has been developed by IA. This covers all aspects of IA Activity (IAA) and is designed to enable an evaluation of the IAA's conformance with the UK PSIAS and an evaluation of whether internal auditors apply the *Code of Ethics.* The QAIP also helps enable the ongoing monitoring of IAA and sets out how IA is maintaining the required quality standards/ achieving continuous improvement.

4.3.2    In the 2017/18 independent EQA that was carried out the IA service achieve a **'Fully Conforms'** rating. We are now preparing for our next EQA in the autumn of 2022. The results of this will be reported to the Audit Committee at a future meeting.

## 5. Internal Audit Follow-Up 2021/22

**5.1       2021/22 Implementation of Agreed Recommendation**

5.1.1    The table below and overleaf shows the number of IA recommendations at the year end that were still open.

<u>**Table 5 ~ 2020/21 Open Recommendations at year end**</u>

|  | **HIGH risk IA recommendations** | **MEDIUM risk IA recommendations** |
|---|---|---|
| **1. No. of recommendations open at the year end** | 11 | 50 |
| **2. No. of recommendations on track for completion by due date** | 3 | 12 |
| **3. No. of recommendations on track for partial completion by due date** | 8 | 18 |
| **4. No of recommendations not likely to be implemented by the due date** | 0 | 20 |

5.1.2    it was agreed with CMT and Audit Committee that due to staff resourcing in 2021/22 Q4 this follow-up work was temporarily suspended so that IA resource was focused on completing the 2021/22 IA annual plan. Updates on the progress of all outstanding IA recommendations will be reported in the quarterly IA progress reports for CMT and Audit Committee, which we hope to pick-up in Q2 2022/23 when the IA team is better resourced.

5.1.3    IA does not follow-up **LOW** risk IA recommendations as they are minor risks including compliance with best practice, or issues that have a minimal impact on a Service's reputation i.e. adherence to local procedures. The full definitions of the IA recommendation risk ratings are included at **Appendix C**.

5.1.4    IA always offers support and advice to managers when they are formulating a response to the risks identified. As an organisational improvement function, IA also aids management to help them devise pragmatic and robust action plans arising from the IA recommendations raised. Good practice in IA and risk management encourages management to respond to risks in any combination of the following four ways; *Treat, Terminate, Tolerate, Transfer -* **the 4 T's**. The full definitions of the response to risk are included at **Appendix C**.

## 6. Review of Internal Audit Performance 2021/22

### 6.1 Key Performance Indicators (KPIs)

6.1.1 The IA KPIs measure the quality, efficiency and effectiveness of the IA service. They assist IA and the Council in helping measure how successful IA has been in achieving its strategic and operational objectives. Actual cumulative IA performance for 2021/22 against its KPIs is highlighted in the table below and overleaf:

**Table 7 ~ 2021/22 IA Key Performance Indicators**

| KPI Ref. | Performance Measure | Target Performance | Actual* Performance | RAG Status |
|---|---|---|---|---|
| KPI 1 | 2021/22 **HIGH** risk IA recommendations where positive management action is proposed | **98%** | **100%** | **GREEN** |
| KPI 2 | 2021/22 **MEDIUM** risk IA recommendations where positive management action is proposed | **95%** | **100%** | **GREEN** |
| KPI 3 | 2021/22 **HIGH** risk IA recommendations where management action is taken within agreed timescale | **90%** | **67%** | **RED** |
| KPI 4 | 2021/22 **MEDIUM** risk IA recommendations where management action is taken within agreed timescale | **75%** | **18%** | **RED** |
| KPI 5 | Percentage of annual (Q1 to Q4) IA Plan delivered to **draft report** stage by 31st March | **90%** | **56%** | **RED** |
| KPI 6 | Percentage of annual (Q1 to Q4) IA Plan delivered to **final report** stage by 31st March | **80%** | **44%** | **RED** |
| KPI 7 | Percentage of draft reports issued as a final report within 15 working days of completion of fieldwork (this being the final day of fieldwork, exit meeting and receipt of all outstanding information) | **80%** | **83%** | **GREEN** |
| KPI 8 | Client Satisfaction Rating (from CFQs) | **85%** | **92%** | **GREEN** |
| KPI 9 | IA work fully compliant with the UK **PSIAS** and **IIA Code of Ethics** | **100%** | **100%** | **GREEN** |

6.1.2 **KPI 5** shows that 15 assurance reviews (out of 27) had reached draft report stage by 31st March 2021/22 which accounted for **56%** of work undertaken so far throughout Q1-Q4 compared to the **90% target** and **KPI 6** shows that 12 assurance reviews (out of 27) had reached final report stage by the 31st March 2022 which accounted for **44%** of work undertaken throughout Q1-Q4 compared to the **80% target**. As a result, both KPIs have been reported as **RED** in line with the IA KPI reporting standards.

6.1.3 The reported drop in IA performance is primarily due to the significant staff vacancies towards the end of the year, which created challenges for the remaining team members and capacity. This drop in performance against these four KPIs was anticipated and the HIA is confident that the IA KPIs performance will improve now that IA has sought support from an external partner, Mazars. Indications are that this is working well, but it came on stream too late to impact on delivery of audit work and KPIs during the year.

6.1.4 Management feedback continues to be positive about our coverage. This year's actual performance against **KPI 8** of 92% shows maintained performance above the 85% KPI.

**6.2　Client Feedback Questionnaires (CFQ)**

6.2.1 As part of continuous improvement, a CFQ is sent out at the completion of all audit reviews to obtain formal management feedback. The **IA CFQ target** previously agreed with CMT and the Audit Committee was for IA to achieve **an overall average score of 3.4 (85%) or above** across the eight CFQ areas. As a recap on the CFQ scores, **4** means the client strongly agrees; **3** is agree; **2** is disagree; and **1** is strongly disagree.

6.2.2 There is not an option on the CFQ for the client to indicate that they 'neither agree nor disagree'. This is to encourage management to form an overall opinion on the work that IA does i.e. did the audit review add value or not?

6.2.3 The table below shows the average score from the **17** CFQs completed in relation to the 2021/22 IA Plan (as per **Appendix A**):

**Table 8 ~ Comparison of Client Feedback Questionnaires**

| IA CFQ Areas | Average Score 2018/19 | Average Score 2019/20 | Average Score 2020/21 | Average Score 2021/22 | % Change (20/21-21/22) |
|---|---|---|---|---|---|
| **Q1. Planning:** The planning arrangements for the IA review were good | 3.63 | 3.71 | 3.76 | **3.82** | 1.60% |
| **Q2. Scope:** The scope of the IA review was relevant | 3.66 | 3.79 | 3.83 | **3.82** | -0.26% |
| **Q3. Conduct:** The IA review was conducted in a highly professional manner | 3.68 | 3.85 | 3.93 | **3.82** | -2.80% |
| **Q4. Timing:** The IA review was carried out in a timely manner | 3.55 | 3.76 | 3.76 | **3.65** | -3.26% |
| **Q5. Report:** The IA report was presented in a clear, logical, and organised way | 3.71 | 3.79 | 3.86 | **3.71** | -2.93% |
| **Q6. Recommendations:** The IA recommendations were constructive and practical | 3.53 | 3.71 | 3.72 | **3.35** | -9.95% |
| **Q7. Value:** The IA review added value to your service area | 3.53 | 3.62 | 3.69 | **3.47** | -5.96% |
| **Q8. Overall:** I look forward to working with IA in future | 3.71 | 3.88 | 3.79 | **3.82** | 0.79% |
| **Average Total Score** | **3.63 (91%)** | **3.76 (94%)** | **3.79 (95%)** | **3.68 (92%)** | |

6.2.4    Review of the above results shows a slight decline in some of the scores and possibly reflects the resourcing difficulties of the team and the challenges faced by some of the services being reviewed. The overall assessment of 92% remains well ahead of the 85% target and demonstrates the positive recognition of IA work across the Council. It is hoped that our closer working with an external partner will help to improve still further some of the areas of potential concern.

6.2.5    Whilst the HIA proactively seeks informal feedback from management on IA, we are extremely grateful to management for formal feedback received in CFQs. A high completion rate of CFQs helps IA identify areas where we can continue to improve as a service.

## 7. Forward Look to 2022/23

7.1      There were a number of key appointments within the organisation during 2021-22 and review of the senior management structure and governance arrangements. In January 2021, a new Leader of the Council was appointed and a new Cabinet put in place. This was followed later in 2021/22 by the appointment of a new Interim Chief Executive and Head of Paid Service and a restructure of senior management and directorates, shaped to deliver the vision for the Council going forward. This includes the development of the Council's Strategy (2022-2026) which is scheduled for presentation to Cabinet in July 2022. The Council's Constitution has been remodelled and modernised to meet changing needs locally and to encompass new national legislation.

7.2      The Council continues to operate in an environment of static financial support from government against a backdrop of rising inflation costs and significant demographic changes. As a result, this presents the Council with a challenge managing the greater demand for its broad range of services.

7.2      A new **3-year IA strategy** was approved in early 2022 to reflect the new environment and take account of the significant transformation agenda that is required. The strategy provides structure and objectives for the next 3 years, will help the IA team support the Council with their strategic priorities and help drive an improved, modern IA service.

7.3      Following the IA team's restructure to address the significant resource issues and a review of our IA processes, 2022/23 will be focused on embedding and implementing these changes. All of which will help prepare the IA team for their next **EQA review** which is due to commence in the autumn of 2022.

7.4      IA would like to take this opportunity to formally thank all staff throughout the Council with whom IA has had contact. There has been a continued collaborative approach in IA's working relationship with staff and management who have in general responded positively to IA findings.

7.5      There are no other matters that IA needs to bring to the attention of the Council's CMT or Audit Committee at this time.

Simon Maddocks JP MSc CFIIA
**Interim Head of Internal Audit**

30th June 2022

# APPENDIX A

## DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2021/22

| Key: | | |
|------|------|------|
| **IA** = Internal Audit | **M** = Medium Risk | **NP** = Notable Practice |
| **H** = High Risk | **L** = Low Risk | **CFQ** = Client Feedback Questionnaire |

### 2021/22 IA Assurance Reviews:

| IA Ref. | IA Review Area | Status as at 30th June 2022 | Assurance Level | Risk Rating | | | | CFQ Received |
|---------|----------------|------------------------------|------------------|---|---|---|----|-------------|
| | | | | H | M | L | NP | |
| 21-A13 | Allotments | Final report issued on 10th June 2022 | **No** | 4 | 3 | 2 | 0 | |
| 21-A6 | Transport Contract Management | Final report issued on 22nd Nov 2021 | **Limited** | 1 | 1 | 0 | 0 | ✓ |
| 21-A18 | S106 and CIL | Final report issued on 17th Jan 2022 | **Limited** | 0 | 5 | 3 | 0 | ✓ |
| 21-A14 | Birth Registration Service | Final report issued on 17th Jan 2022 | **Limited** | 0 | 4 | 2 | 0 | ✓ |
| 21-A20 | *Thematic Review of Safeguarding in Schools | Final Report issued on 8th Feb 2022 | **Limited** | 5 | 0 | 4 | 0 | ✓ |
| 21-A26 | Planning Enforcement | Final report issued on 27th April 2022 | **Limited** | 2 | 7 | 5 | 0 | ✓ |
| 21-A9 | Business Continuity Planning | Final report issued on 3rd Sept 2021 | **Reasonable** | 0 | 3 | 1 | 0 | ✓ |
| 21-A2 | Planned Works & Contract Management | Final report issued on 14th Oct 2021 | **Reasonable** | 0 | 3 | 3 | 0 | ✓ |
| 21-A7 | Fostering Service | Final report issued on 15th Oct 2021 | **Reasonable** | 0 | 4 | 2 | 0 | ✓ |
| 21-A5 | Expenditure Approval Process | Final report issued on 18th Oct 2021 | **Reasonable** | 0 | 2 | 5 | 0 | ✓ |
| 21-A17 | Road Naming and Numbering | Final report issued on 10th Dec 2021 | **Reasonable** | 0 | 4 | 4 | 1 | ✓ |
| 21-A16 | Procurement – Contract Compliance | Final report issued on 31st Dec 2021 | **Reasonable** | 1 | 1 | 3 | 0 | ✓ |
| 21-A3 | ICT Service Desk | Final report issued on 28th Jan 2022 | **Reasonable** | 0 | 2 | 3 | 0 | |
| 21-A23 | Chronology on Protocol | Final report issued on 28th April 2022 | **Reasonable** | 0 | 2 | 0 | 1 | ✓ |
| 21-A29 | Music Service – Overseas Trip | Final report issued on 27th April 2022 | **Reasonable** | 0 | 4 | 1 | 0 | ✓ |
| 21-A28 | Home to Assess | Final report issued on 14th March 2022 | **Substantial** | 0 | 0 | 4 | 0 | ✓ |

## DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2021/22 (cont'd)

**2021/22 IA Assurance Reviews (cont'd):**

| IA Ref. | IA Review Area | Status as at 30th June 2022 | Assurance Level | Risk Rating | | | | CFQ Received |
|---------|----------------|------------------------------|-----------------|:---:|:---:|:---:|:---:|---------------|
| | | | | **H** | **M** | **L** | **NP** | |
| 21-A25 | Hatton Grove | Testing in progress | | | | | | |
| 21-A27 | Payroll Rent Payments | Testing in progress | | | | | | |
| 21-A11 | Crematorium | Draft report prepared | | | | | | |
| 21-A12 | Absence Management | Draft report issued on 27th April 2022 | | | | | | |
| 21-A21 | IT Application Review: ContrOCC | Testing in progress | | | | | | |
| 21-A24 | Transport Funded Projects | Testing in progress | | | | | | |
| 21-A1 | Disabled Facilities Grant | Testing in progress | | | | | | |
| 21-A30 | **DSG - Pupil Places Planning including SEN | Testing in progress | | | | | | |
| 21-A31 | Tenancy Management – Fixed Term Tenancies | Testing in progress | | | | | | |
| 21-A32 | IT Governance | Deferred to 2022/23 | | | | | | |
| 21-A33 | Stronger Families Hub | Testing in progress | | | | | | |
| 21-A34 | Licensing – Animal Welfare | Deferred to 2022/23 | | | | | | |
| 21-A35 | Pension Fund Data Mapping | Testing in progress | | | | | | |
| | Total **number** of IA Assurance Recommendations raised in 2021/22 | | | **13** | **45** | **42** | **2** | |
| | Total **percentage** of IA Assurance Recommendations raised in 2021/22 | | | **13%** | **44%** | **41%** | **2%** | |

*Thematic review with total number of recommendations raised across 4 schools*

**Review title 'Dedicated Schools Grant – Pupil Places Planning including Special Education Needs'*

# APPENDIX A (cont'd)

## DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2021/22 (cont'd)

**2021/22 IA Consultancy Reviews:**

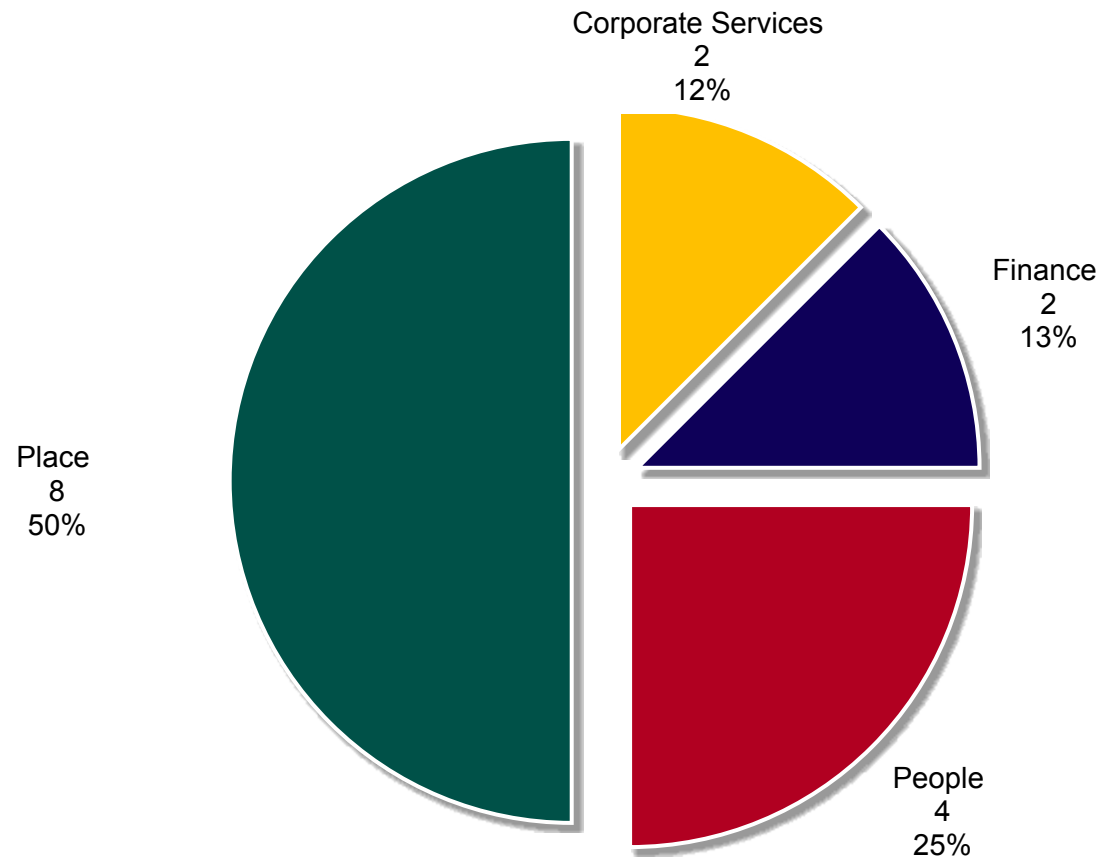| IA Ref. | IA Review Area | Status as at 30th June 2022 | CFQ Received |
|---------|----------------|------------------------------|--------------|
| 21-C1 | Civica Casework - Enforcement | Final memo issued on 22nd October 2021 | ✓ |
| 21-C2 | General Ledger | Final memo issued on 23rd December 2021 | ✓ |
| 21-C3 | External Quality Assessment for LB Camden & LB Islington | Final memo issued on 2nd February 2022 | N/A |
| 21-C4 | Occupational Therapy - Contract Management | Final memo issued on 28th March 2022 | ✓ |
| 21-C5 | Mayors Charity Accounts 2021/22 | Independent Examiners report issued on 11th March 2022 | N/A |
| 21-C6 | Stores Stock Check 2021/22 | Final memo issued on 31st March 2022 | |
| 21-C7 | Purchasing and Payments in Hayes Park School | Testing completed | |
| 21-C8 | Direct Payments Transactional Testing | Final memo issued on 10th June 2022 | |

# APPENDIX A (cont'd)

## DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2021/22 (cont'd)

**2021/22 IA Grant Claims certified:**

| IA Ref. | IA Review Area | Status as at 30th June 2022 |
|---------|----------------|------------------------------|
| 21-GC1 | Supporting Families Grant - Quarter 1 | Certified, memos issued on 29th Apr, 28th May and 25th Jun 2021 |
| 21-GC2 | Safety at Ports Grant | Certified and memo issued on 12th August 2021 |
| 21-GC6 | Bus Service Operators Grant | Certified and memo issued on 30th September 2021 |
| 21-GC3 | Supporting Families Grant - Quarter 2 | Certified, memos issued on 30th Jul, 27th Aug and 24th Sept 2021 |
| 21-GC5 | Disabled Facilities Capital Grant | Certified and memo issued on 26th October 2021 |
| 21-GC7 | Supporting Families Grant - Quarter 3 | Certified, memos issued on 29th Oct, 26th Nov and 17th Dec 2021 |
| 21-GC4 | Housing Benefit Subsidy Grant | Certified and memo issued on 10th December 2021 |
| 21-GC8 | Green Homes Grant | Certified and memo issued on 15th December 2021 |
| 21-GC9 | Supporting Families Grant - Quarter 4 | Certified, memos issued on 28th Jan, 24th Feb and 23rd Mar 2022 |

**APPENDIX A (cont'd)**

**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2021/22 (cont'd)**

**Chart 7 – Analysis by Department of 2021/22 IA planned assurance work completed**

Corporate Services
2
12%

Finance
2
13%

Place
8
50%

People
4
25%

## INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

| ASSURANCE LEVEL | DEFINITION |
|---|---|
| **SUBSTANTIAL** | There is a **good level of assurance** over the management of the key risks to the Council objectives. The control environment is robust with no major weaknesses in design or operation. There is **positive assurance** that objectives will be achieved. |
| **REASONABLE** | There is a **reasonable level of assurance** over the management of the key risks to the Council objectives. The control environment needs some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains **some risk** that objectives will not be achieved. |
| **LIMITED** | There is a **limited level of assurance** over the management of the key risks to the Council objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a **significant risk** that objectives will not be achieved. |
| **NO** | There is **no assurance** to be derived from the management of key risks to the Council objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is a **high risk** that objectives will not be achieved. |

1. **Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:

    - establishing and monitoring the achievement of the authority's objectives;

    - the facilitation of policy and decision-making;

    - ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;

    - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;

    - the financial management of the authority and the reporting of financial management; and

    - the performance management of the authority and the reporting of performance management.

2. **Risk Appetite:** The amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time.

3. **Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

# APPENDIX C

## INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

| RISK | DEFINITION |
|---|---|
| **HIGH**<br>🔴 | The recommendation relates to **a significant threat** or opportunity that impacts the Council's corporate objectives. The action required is to mitigate a substantial risk to the Council. In particular, it has an impact on the Council's reputation, statutory compliance, finances, or key corporate objectives. **The risk requires senior management attention**. |
| **MEDIUM**<br>🟡 | The recommendation relates to **a potentially significant threat** or opportunity that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the Council. In particular, an adverse impact on the Department's reputation, adherence to Council policy, the departmental budget or service plan objectives. **The risk requires management attention**. |
| **LOW**<br>🟢 | The recommendation relates to **a minor threat or opportunity** that impacts on operational objectives. The action required is to mitigate a minor risk to the Council as a whole. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget, or section objectives. **The risk may be tolerable in the medium term**. |
| **NOTABLE PRACTICE**<br>🔵 | The activity **reflects current best management practice** or is an innovative response to the management of risk within the Council. **The practice should be shared with others**. |

## RISK RESPONSE DEFINITIONS

| RISK RESPONSE | DEFINITION |
|---|---|
| **TREAT** | The probability and / or impact of the risk are reduced to an acceptable level through the proposal of positive management action. |
| **TOLERATE** | The risk is accepted by management and no further action is proposed. |
| **TRANSFER** | Moving the impact and responsibility (but not the accountability) of the risk to a third party. |
| **TERMINATE** | The activity / project from which the risk originates from are no longer undertaken. |