

A stack of several books with white pages and dark covers, positioned in the upper left corner of the page. The books are slightly out of focus, creating a sense of depth.

INTERNAL AUDIT ANNUAL REPORT & OPINION STATEMENT

2022/23

April 2023



HILLINGDON
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Contents

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1. INTRODUCTION

- 1.1 Internal Audit (IA) provides an independent assurance and consultancy service that underpins good governance. IA gives an objective opinion on whether the control environment is operating as expected to help 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.
- 1.2 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).
- 1.3 This annual report summarises the main findings arising from all of the 2022/23 IA work and the annual Head of Internal Audit opinion as required by the PSIAS. 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 2022/23 IA Plan and on the effectiveness of the IA service.

2. SUMMARY OF 2022/23 INTERNAL AUDIT WORK

- 2.1 In total **39** pieces of IA work were fully delivered as part of the 2022/23 IA plan as at the end of April 2023. This included **27** assurance reviews, **2** consultancy reviews and **10** grant claim audits. A further **6** assurance reviews were nearing completion and the draft findings have been taken into consideration as part of the Annual Head of Internal Audit Opinion reported below.
- 2.2 An analysis of IA work over the past 5 years shows an **increase** in completed assurance work in 2022/23 despite the ongoing significant staff vacancies throughout the year.

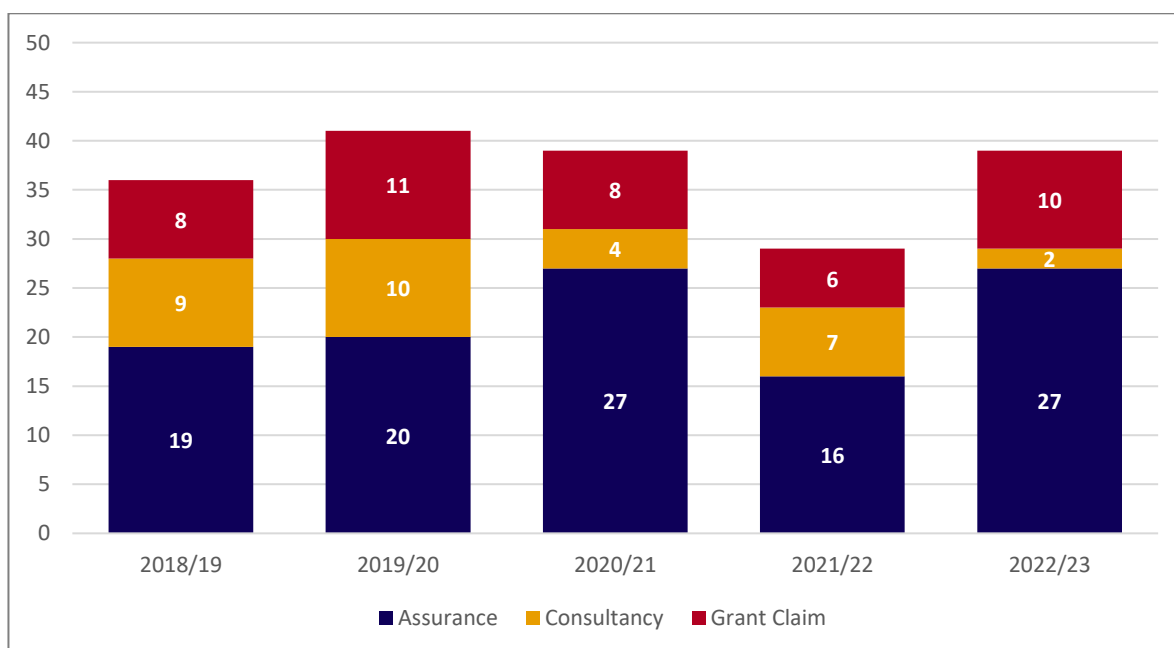


FIGURE 1 IA WORK COMPLETED BY REVIEW TYPE

- 2.3 **89%** of the completed 2022/23 assurance reviews resulted in a **SUBSTANTIAL** or **REASONABLE** assurance opinion and only **11%** of assurance reviews resulted in **LIMITED** and **NO** assurance opinions (definitions of the IA assurance levels are included at Appendix B). This is consistent with

expectations, due to the increased reliance on a third-party internal audit provider during the year but should still be considered positive given the risk based focus of IA coverage.

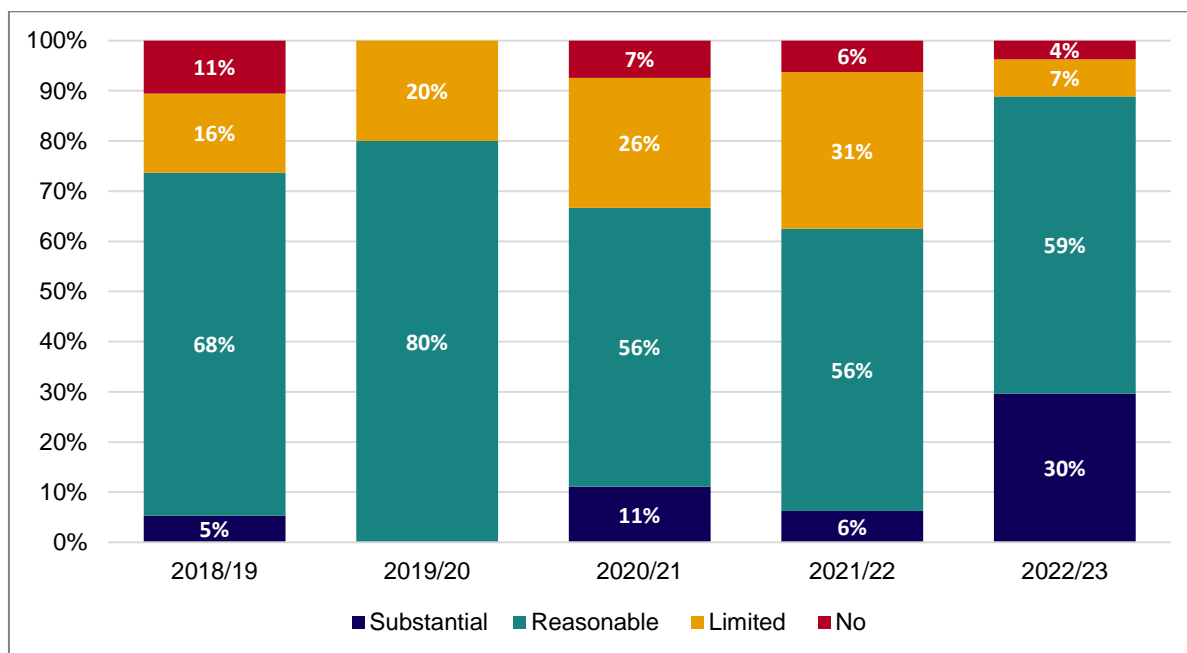


FIGURE 2 IA ASSURANCE RATINGS AS A PERCENTAGE OF ASSURANCE REVIEWS COMPLETED

2.4 Within the 27 IA assurance reviews completed in 2022/23, we raised 93 IA assurance recommendations in total. This is a **decrease** compared to prior years and reflects the higher number of substantial and reasonable assurance reports. All 2022/23 recommendations raised by IA were accepted by the relevant manager’s/risk owner.

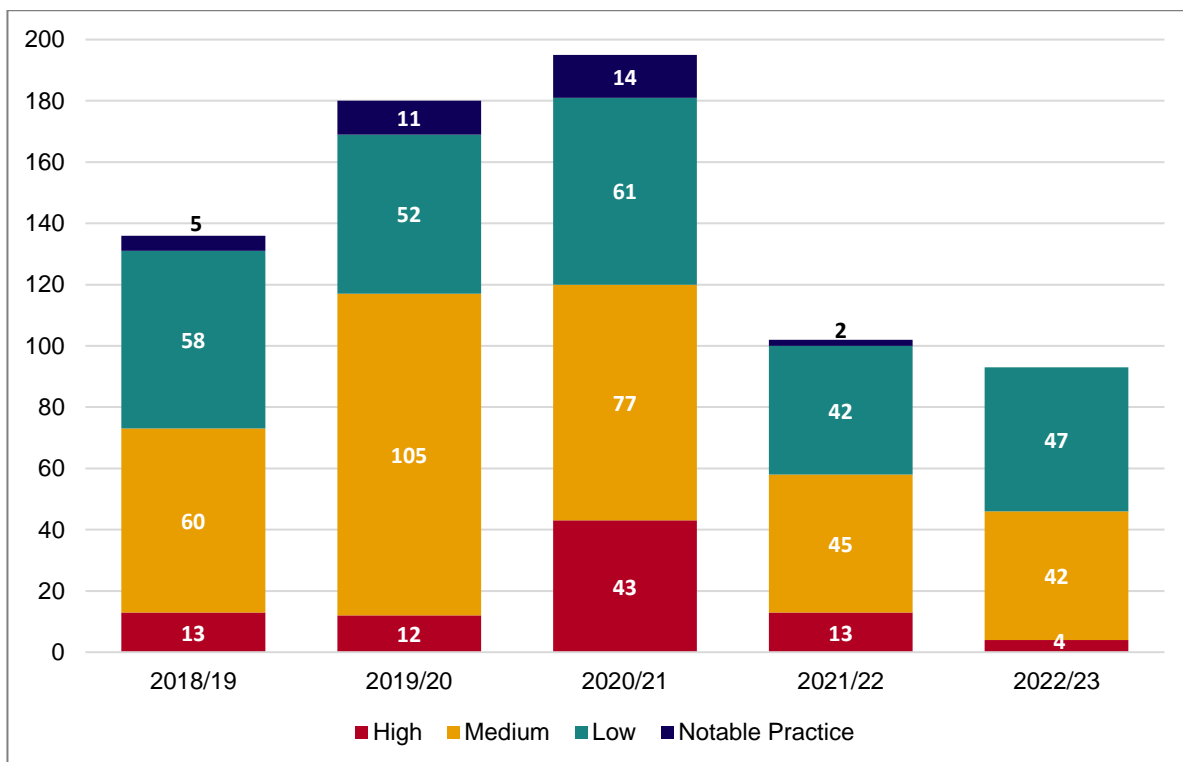


FIGURE 3 IA ASSURANCE RECOMMENDATIONS BY SIGNIFICANCE RATING

2.5 The individual assurance reviews carried out during 2022/23 are listed in Appendix A, including the assurance levels achieved (as outlined at Appendix B) and the number of IA recommendations made (in accordance with the risk ratings as outlined at Appendix C).

- 2.6 The two consultancy reviews and 10 grant claim audits are also detailed in Appendix A. Consultancy work continues to provide advice and guidance across the Council, enhancing the role of IA in helping Council services improve, achieving the collaborative approach that IA strives to deliver.
- 2.7 This year the IA team has faced significant challenges, including no permanent Head of Internal Audit & Risk Assurance and significant vacancies impacting on the capacity within the team. Although the team has been supported by an external partner, Mazars, throughout the year this has limited the scope of the reviews undertaken. A permanent HIA was appointed in quarter four, and recruitment was progressing for other members of the team at the end of the year. A wider programme of recruitment and training is being taken forward throughout 2023/24.

3. HEAD OF INTERNAL AUDIT OPINION STATEMENT 2022/23

*It is the HIA's opinion that overall IA can provide **REASONABLE** assurance that the system of internal control in place at Hillingdon Council for the year ended 31st March 2023 accords with proper practice, except for the significant internal control issues listed below.*

3.1 Background & Scope

- 3.1.1 Our role as internal auditors is to provide the Audit Committee and CMT with an opinion on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. The opinion statement is a source of assurance for the Chief Executive and Leader of the Council in completing the Annual Governance Statement (AGS), which forms part of the statutory Statement of Accounts for the 2022/23 year.
- 3.1.2 Our internal audit work for the 12-month period from 1 April 2022 to 31 March 2023 was carried out in accordance with the internal audit work plan approved by CMT and the Audit Committee. This opinion and report is calculated in relation to the service areas and risks reviewed in the year, and does not relate to any of the other operations of the Council. Our approach complies with best professional practice, in particular Public Sector Internal Audit Standards and the Chartered Institute of Internal Auditors' Position Statement on Risk Based Internal Auditing.
- 3.1.3 In assessing the level of assurance to be given we have taken into account the internal audits undertaken during 2022/23, the management responses and actions taken in relation to significant findings identified, the effects of any significant changes in the Council's objectives or systems, and any matters arising from previous internal audit reports.
- 3.1.4 During 2022/23 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 sufficient resources to enable it to provide adequate coverage of the authority's control environment. Therefore, there are no qualifications to the 2022/23 HIA opinion statement.

3.2 Annual Opinion Statement on the Effectiveness of the System of Internal Control

- 3.2.1 The HIA opinion is based primarily on the work carried out by the Council's IA service during 2022/23, which have all been conducted in accordance with the UK PSIAS. 59% of the reports finalised in the period were given a Reasonable assurance opinion, and 30% were given Substantial assurance. These included key governance areas such as IT Governance, Fraud Prevention in Procurement and Members' Gifts, Hospitality and Declarations of Interest.
- 3.2.2 Although three reviews were given No or Limited assurance (Crematorium, Service Tenancies and Payroll Rent Payments, and Purchase Cards), Internal Audit were specifically directed to these areas by management and work is ongoing to strengthen the Council's control environment in relation to the significant control weaknesses identified. This demonstrates the Council's commitment to engaging with Internal audit to continuously improve, rather than focusing on traditional compliance based audits.

3.2.3 Common themes arising from the Internal Audit findings raised in 2022/23 include outdated policies and procedures, unclear roles and responsibilities where processes cross between Directorates, and poor documentation due to a reliance on manual records. These are all elements the council is already looking to address in 2023/24.

3.2.4 When assessing the effectiveness of the system of internal Control the HIA has also taken into consideration the work of other assurance providers including External Audit and the Counter Fraud Team (CFT), as well as the council's performance against budget and key objectives. The Council also has a good record of engaging with Internal Audit and proactively in discussing plans to address the risks identified in the 2022/23 audits.

3.3 Risk Management

3.3.1 Risk Management is the process by which risks are identified and evaluated so that appropriate actions can be taken to reduce the likelihood and impact of risks materialising. In the event a risk materialises, this could inhibit the Council from achieving its objectives and fulfilling its strategic priorities.

3.3.2 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 roles and responsibilities of Members and Officers in relation to Risk Management.

3.3.3 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. The IA assessment of the Council's Risk Management maturity is that the Council was **RISK AWARE** as at the end of April 2023, the second of the five maturity levels.

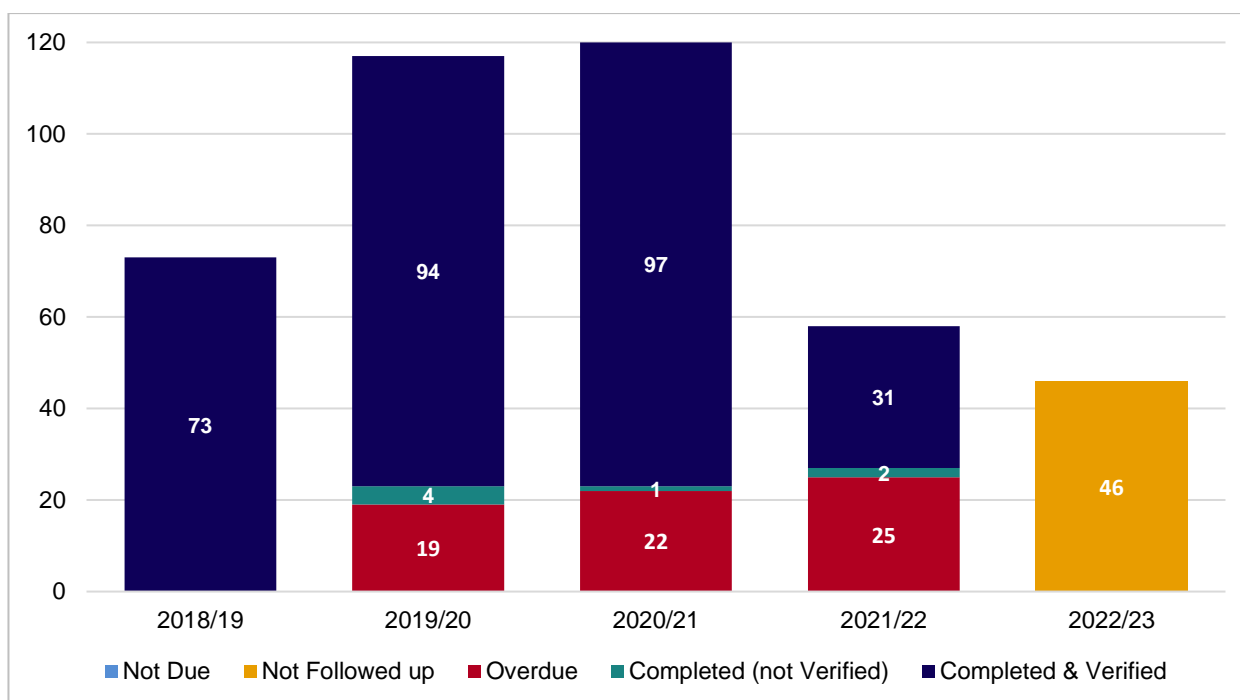
3.3.4 Although significant risks are documented and reviewed by Directorate Senior Management Teams, CMT and the Audit Committee on a quarterly basis, this is not a proactive process and there insufficient clear action plans to address the risks identified. There is also very limited risk identification and management at an operational level, with limited understanding of Risk Management within the services.

3.3.5 The approach to managing risks still requires significant work if the Council is to achieve a *Risk Managed* enterprise-wide approach to risk management. Providing support to embed more effective risk management processes is a key priority for the HIA in 2023/24.

4. Internal Audit Follow-Up 2022/23

4.1 Implementation of recommended actions is a key determinant of our annual opinion. If actions are not implemented in a timely manner then weaknesses in control and governance frameworks will remain in place. Furthermore, an unwillingness or inability to implement recommendations reflects poorly on management's commitment to the maintenance of a robust control environment.

4.2 Due to the significant staff vacancies within the Internal Audit team during 2022/23 it was agreed with CMT and Audit Committee that follow-up work was temporarily suspended to focus on completing the 2022/23 IA annual plan. It was reintroduced at the end of the year and all actions due to have been implemented were followed up. The graph below shows the current status of recommended actions:



- 4.3 As at the year end, there were also seven outstanding recommendations relating to audits completed prior to 2018/19. Five of the seven were closed shortly after the year end, the remaining two recommendations will be followed up during 2023/24 to ensure they are implemented as planned.
- 4.4 Due to several management changes across the council, many of the recommendations have been delayed as the responsible officer has left the organisation. These recommendations have now been allocated to new responsible officers and will continue to be followed up until they are completed and verified.
- 4.5 Going forwards, updates on the progress of all outstanding IA recommendations will be reported in the quarterly IA progress reports for CMT and Audit Committee.

5. Review of Internal Audit Performance 2022/23

- 5.1 IA Key Performance Indicators (KPIs) measure the quality, efficiency and effectiveness of the IA service. Due to the significant vacancies within the IA team, performance data in relation to the KPIs was not collected and reported throughout 2022/23.
- 5.2 In total **39** pieces of IA work were finalised as at the end of April 2023, equating to **83% of the planned work** for the year. In addition, five reports had been issued in draft and we were waiting for management responses from the service, increasing the total to **94% of the plan issued in draft**. This is a fantastic result given the vacancies within the team over the year.
- 5.3 During the year a survey of key stakeholders was undertaken. In summary the survey results have revealed that:
- The internal audit service demonstrates integrity in the way that it operates and is delivered with professionalism at all times.
 - Only 7% (2/28) felt Internal audit was not valued throughout the organisation, however 46% only partially agreed IA was valued throughout the organisation.
 - 29% (8/28) services felt that the internal audit service did not have the necessary resources and access to information to enable it to fulfil its mandate. A further 32% only partially agreed internal audit had the necessary resources, and no respondents fully agreed Internal Audit had the resources to fulfil its mandate.

- 5.4 KPIs have been re-introduced in the 2023/24 Internal Audit Plan, and new monitoring processes have been established to ensure performance can be reported more regularly going forward. The HIA is also confident that the IA KPIs performance will improve now that there has been significant recruitment into the team.

APPENDIX A: DETAILED INTERNAL AUDIT ACTIVITY

IA ASSURANCE REVIEWS

IA Ref.	IA Review Area	Current Status as at end of April 2023	Assurance Level	Risk Rating			
				H	M	L	NP
21-A25	Hatton Grove	Final report issued: 20 Dec 2022	REASONABLE	0	2	1	0
21-A27	Service Tenancies & Payroll Rent Payments	Final report issued: 17 April 2023	NO	2	0	1	0
21-A11	Crematorium	Final report issued 22 November 2022	LIMITED	1	2	5	0
21-A12	Absence Management	Final report issued 15 November 2022	REASONABLE	0	5	1	0
21-A24	Transport Funded Projects	Final report issued 20 September 2022	REASONABLE	0	2	3	0
21-A31	Tenancy Management – Fixed Term Tenancies	Final report issued 29 March 2023	REASONABLE	0	3	2	0
21-A35	Pension Fund Data Mapping	Final report issued 26 July 2022	REASONABLE	0	1	1	0
21-A32	IT Governance	Final report issued 15 November 2022	REASONABLE	0	2	0	0
21-A34	Licensing – Animal Welfare	Final report issued 16 September 2022	REASONABLE	0	1	0	0
22-A37	Direct Payments	Final report issued 20 October 2022	SUBSTANTIAL	0	0	1	0
22 A38	Domestic Violence Homelessness Process	Final report issued 26 April 2023	REASONABLE	0	2	2	0
22-A39	Stronger Families	Final report issued 16 November 2022	REASONABLE	1	1	3	0
22-A40	Information Security	Final report issued 21 February 2023	REASONABLE	0	4	4	0
22-A41	Making Tax Digital	Final report issued 18 July 2022	SUBSTANTIAL	0	0	1	0
22-A42	Fraud prevention Controls in Contracts	Final report issued: 17 April 2023	REASONABLE	0	4	1	0
22-A43	Registrars Cash Handling	Final report issued 16 November 2022	REASONABLE	0	1	2	0
22-A44	Members' Gifts, Hospitality & Declarations of Interest	Final report issued 17 January 2023	SUBSTANTIAL	0	0	1	0
22-A45	Adult Social Care Referrals and assessments	Final report issued 17 March 2023	REASONABLE	0	2	2	0
22-A46	Colham Road Care Home	Final report issued 13 March 2023	REASONABLE	0	2	2	0

Key:

IA = Internal Audit	H = High Risk	M = Medium Risk	L = Low Risk	NP = Notable Practice
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IA Ref.	IA Review Area	Current Status as at end of April 2023	Assurance Level	Risk Rating			
				H	M	L	NP
22-A48	Quality of Practice	Final report issued 16 March 2023	REASONABLE	0	3	1	0
22-A49	Housing Benefits - Council Tax Reduction Scheme	Final report issued 02 February 2023	SUBSTANTIAL	0	0	2	0
22-A50	Purchasing Cards	Final report issued 13 April 2023	LIMITED	0	4	3	0
22-A51	Voids Management and Housing Repairs	Final report issued 17 April 2023	SUBSTANTIAL	0	0	3	0
22-A53	Local Land Charges	Final report issued 19 December 2022	REASONABLE	0	0	2	0
22-A54	Rent Collection and Arrears Recovery	Final report issued 07 March 2023	SUBSTANTIAL	0	0	1	0
22-A58	Merrimans Respite Care Unit	Final report issued 20 February 2023	SUBSTANTIAL	0	1	1	0
22-A62	Revenues Council Tax and NNDR	Final report issued 30 March 2023	SUBSTANTIAL	0	0	2	0
Total Number of IA Recommendations Raised				4	42	47	0

IA CONSULTANCY & GRANT CLAIM VERIFICATION REVIEWS

IA Ref.	IA Review Area	Current Status as at end of April 2023
22-C11	A Domiciliary Care provider	Memo issued 21 March 2023
22-C1	Mayors Charity Accounts	Memo issued 24 March 2023
22-G1	Supporting Families Grant – Quarter 1	Memos issued 30 May and 22 June 2022
22-G2	Contain Outbreak Management Fund	Memo issued 30 June 2022
22-G3	Rough Sleepers Initiative	Memo issued 27 June 2022
22-G4	Test and Trace	Memo issued 30 June 2022
22-G5	Supporting Families Grant – Quarter 2	Memos issued 1 August 31 August and 28 September 2022
22-G6	Universal Drug Treatment (Crime and Harm Reduction)	Memo issued 15 July 2022
22-G7	Trading Standards Grant	Memo issued 15 September 2022
22-G9	Housing Benefit Subsidy Grant	Memo issued 9 November 2022
22-G10	Supporting Families Grant – Quarter 3	Memos issued 28 October, 24 November and 23 December 2022
22-G11	Supporting Families Grant – Quarter 4	Memos issued 27 January, 24 February and 31 March 2023

Key:

IA = Internal Audit	H = High Risk	M = Medium Risk	L = Low Risk	NP = Notable Practice
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APPENDIX B: INTERNAL AUDIT 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.

RISK	DEFINITION
HIGH	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	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	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	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.