

**Head of Internal Audit Annual  
Report 2018/19**

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## 1. Introduction

### 1.1 The Annual Reporting Process

- 1.2 The Public Sector Internal Audit Standards (Performance Standard 2450) state that the Chief Audit Executive, referred to in this report as the Head of Internal Audit, must deliver an annual internal audit opinion and a report that can be used by the organisation to inform its governance statement.
- 1.3 The annual report must incorporate the opinion, a summary of the work that supports the opinion, an explanation about any limitations on the scope, details of other internal or external assurance or activity that may have been relied on when forming the opinion, a statement about conformance with the Public Sector Internal Audit Standards and the results of Internal Audit's Quality Assurance and Improvement Programme.

## 2. Head of Internal Audit Annual Opinion 2018/19

- 2.1 In reaching my opinion I have taken into consideration the outcomes of audit and counter fraud activity undertaken during the year; external assurances provided by Ofsted and the Local Government Association Corporate Peer Challenge as well as management's progress in addressing governance, risk and control weaknesses.

On the basis of the audit and counter fraud activity undertaken during the year, and taking into consideration external assurances provided by Ofsted and the Local Government Association Corporate Peer Challenge as well as management's progress in addressing governance, risk and control weaknesses, it is my opinion that I can provide **reasonable assurance** that the authority has adequate systems of internal control and that they have, in the main, been operating effectively in practice.

The framework of governance, risk management and control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

## 3. The Basis of the Annual Opinion

- 3.1 The outcome of the audits undertaken during the year by Internal Audit form the basis of the annual audit opinion over the adequacy and effectiveness of the governance, risk and control framework.
- 3.2 A risk-based internal audit plan was agreed with the Audit Committee in 2018. The changing public sector environment and emergence of new risks increasingly necessitates re-evaluation of the audit plan throughout

the year. During 2018/19, regular reports have been presented to the Audit Committee to highlight progress made towards the delivery of the audit plan, along with details of any significant amendments to the plan. Whilst there were no significant amendments, a number of planned audits were deferred and moved into the 2019/20 audit plan.

- 3.3 A combined assurance opinion was provided at the conclusion of each audit. To ensure consistency in reporting, the following definitions of audit assurance are used for each audit.

**Table 1 - Audit Opinion Definitions**

<b>Level</b>	<b>Definition</b>
Full	There is a sound system of control designed to achieve the system objectives and from our testing the controls are being consistently applied.
Substantial	While there is basically a sound system there are weaknesses which put some of the control objectives at risk and from our testing there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited	Weaknesses in the system of controls are such as to put the systems objectives at risk and from our testing the level of non-compliance puts the systems objectives at risk.
Nil	Control is generally weak leaving the system open to significant error or abuse and from our testing there were significant non-compliance with basic controls leaves the system open to error or abuse.

#### **4. Internal Audit 2018/19**

- 4.1 The following table summarises the outcomes of the audit reviews completed for 2018/19:

**Table 2 - Summary of Audit Outcomes for 2018/19.**

<b>Audit Title</b>	<b>Assurance Opinion</b>	<b>Report</b>
Management of Members' Enquiries	Substantial	Final
Members' Induction and Training	Substantial	Final
Contract Monitoring of Commissioned Services for Public Health	Substantial	Final
Inspection of Mile End and Victoria Parks	Substantial	Final
Elective Home Education	Substantial	Final
Recycling Contract Monitoring	Substantial	Final
HR / Payroll	Substantial	Final
Creditors	Substantial	Final

Pensions	Substantial	Final
Housing and Council Tax Benefit	Substantial	Final
Housing Rents	Substantial	Final
Acting Up and Honoraria	Substantial	Final
Project and programme Management	Substantial	Final
Lettings	Substantial	Final
Tendering for waste contracts	Substantial	Final
Ice Cream Tendering	Substantial	Final
Members Gifts and Hospitality	Substantial	Final
Street Lighting	Substantial	Final
Homelessness Assessment	Substantial	Final
Declaration of Interests	Limited	Final
Deprivation of Liberty Safeguards	Limited	Final
Rapid Response Team - Service Review	Limited	Final
Framework1 - Payment Control	Limited	Final
Youth Service	Limited	Final
Dangerous Structures	Limited	Final
Management of Markets	Limited	Final
Handy Person's Service	Limited	Final
Purchase cards	Limited	Final
DBS	Limited	Final
SEND Commissioning	Limited	Final

- 4.2 In total, 19 substantial assurance opinions (63%) and 11 limited assurance opinions (37%) have been given (based on finalised reports only). Summaries of the finalised reports with limited assurance opinions have previously been provided to the Audit Committee. Having reviewed these audit outcomes I have concluded that a **reasonable** assurance opinion is warranted, but have also considered the following.

## 5. Implementation of Agreed Management Actions

- 5.1 In each instance where it was identified that the control environment was not strong enough or was not complied with sufficiently to prevent risks to the organisation, Internal Audit have obtained an agreed management action plan to address the weaknesses identified and improve the system of control and compliance.
- 5.2 As a part of the follow up audit work programme, high and medium priority recommendations have been followed up six months after the issue of the final reports to assess the progress made in implementing the agreed actions. In March 2018, Key Performance Indicators (KPI) for management's completion of actions were reported to the Audit Committee. The KPI's recorded targets of 100% for implementation of high priority recommendations and 95% for medium priority recommendations.

An overview of the performance against these KPI's is summarised in Table 3 below:

**Table 3 – Implementation of Agreed Management Actions 2018/19**

	High Priority Recommendations	Medium Priority Recommendations
Number of Agreed Management Actions	93	7
Number of Management Actions Implemented	60	4
Number of Management Actions Outstanding	33	3
% Implemented	65%	57%

- 5.3 Management's implementation of actions has worsened since last year. In 2017/18 the response rates were 78% (High) and 73% (Medium). A more detailed analysis of responses has revealed that the implementation of actions agreed during one particular audit was very poor. This has lowered the overall percentage for high priority recommendations from a potential of 75% (if all actions had been fully implemented) to the current rate of 65%. Overall, there is clear room for improvement in management's implementation of agreed actions and Internal Audit will be encouraging increased accountability and ownership by management in the future.

## **6. Anti-Fraud and Corruption**

- 6.1 There continues to be an increasingly high risk of fraud across the public sector. The Council's Counter Fraud Specialists undertake activity to support the Council in reducing its fraud and corruption risks, this includes both reactive and proactive elements, along with a number of initiatives to raise awareness of the council's anti-fraud and corruption culture. Progress on this activity has been regularly reported to the Audit Committee. Appendix 1 of this report summarises a sample of cases that have been referred and investigated.
- 6.2 During 2018/19, 27 corporate/internal referrals in respect of alleged fraud or code of conduct breaches were received. This included referrals received via the Council's whistleblowing procedure. Of these, 25 investigations have been completed which includes all whistleblowing referrals. In addition, 357 referrals were received in respect of suspected social housing fraud matters, and 122 referrals in respect of Parking / Blue Badge fraud.
- 6.3 The positive outcomes achieved following the investigation of the above matters includes the following:

- 55 Social Housing properties recovered
- 12 Right to Buy applications stopped
- 58 Parking Control Notices issued
- 46 Vehicles Removed
- 175 Blue Badges seized
- 60 Resident Parking Permits cancelled

6.4 Initial matches from the biennial National Fraud Initiative (NFI 2018) data matching exercise were received by the Council in February 2019. The 'potential' fraud matches have been reviewed using the recommended prioritisation filters. For the NFI 2018 exercise the total number of matches received so far is 20,115, of these 2,144 are considered high or medium risk. To date, a total of 2,213 have been reviewed and resolved. A detailed report about the current NFI arrangements and progress made has been provided to the Audit Committee.

## **7. Other Sources of Assurance**

7.1 During 2018/19 Ofsted have undertaken four Children's Service Monitoring Visits. The visit in March 2019 was the sixth and final monitoring visit since the Council was judged inadequate for overall effectiveness in April 2017. In their overview the inspectors reported that, whilst there were still some areas that have not yet been fully addressed effective action had been taken by leaders and managers following the previous inspection and subsequent monitoring visits has led to suitable improvements in the quality of social work practice for children in need of help and protection.

7.2 In June 2018 the Council asked the Local Government Association to run a Corporate Peer Challenge to independently review the achievements against the Best Value Action Plans and Best Value Improvement Plans. The LGA Peer Challenge Team were asked to review whether the council had adequately addressed the directions previously issued by the Ministry of Housing, Communities and Local Government (MHCLG); whether the council was adequately addressing its chosen priorities and delivering continued improvements; and whether the Council was identifying key challenges and setting realistic and ambitious targets for the future? In summary, whilst some new areas had been identified for improvement and increased focus, the Peer Challenge Team reported there had been significant improvements in all of the areas identified.

## **8. Schools**

8.1 During 2018/19, 11 schools were subject to an internal audit review. A standard audit program is used to ensure consistency with regards to the scope of review for each school visited. The scope of the reviews covers:

- Operation of Governance Processes
- Financial Planning and Budgetary Control
- Control and Monitoring of Schools Bank Account(s)

- Procurement and Expenditure (including Large Single Purchases Tendering & Value for Money and Purchase cards)
- Income Collection and Banking
- Personnel and Payroll Management
- School Meals and School Journeys
- Inventory
- Security and Risk Management.

8.2 For every school report issued an action plan has been agreed with the school. The implementation of these actions should ensure that the control environment at these schools is improved to an appropriate level. Table 5 below details the schools subject to audit during 2018/19 with the assurance opinion provided.

**Table 5 – Schools Audits 2018/19**

School Name	Assurance
Cubitt Town Infants School	Substantial
Old Church Nursery	Substantial
Rachel Keeling Nursery	Substantial
Alice Model Nursery School	Substantial
Cyril Jackson Primary	Limited (Draft)
Our Lady & St Joseph Primary	Substantial
Harry Gosling Primary	Substantial
Shapla Primary School	Substantial
Raines Foundation Secondary	Limited
Swanlea Secondary	Substantial
George Green's Secondary School	Limited

## 9. Tower Hamlets Homes

9.1 The LBTH Internal Audit Team delivers an annual plan of audit activity for Tower Hamlets Homes (THH) as set out in the current management agreement. During 2018/19 summaries of the audit findings were reported to the Tower Hamlets Homes Finance and Audit Committee. Table 6 below summaries the audits delivered at THH along with the assurance opinions provided. For clarity, I have not taken the outcome of these audits into consideration when forming the annual opinion for the council, and are reported here as information for the Audit Committee.

**Table 6 – Tower Hamlets Homes Audit Programme**

Audit Description	Assurance Opinion
Right to Buy	Substantial
Management of Complaints	Substantial
Management and Control of Security breaches and Incidents	Substantial



THH Governance	Substantial
Financial Systems	Substantial
Pre-contract Audit on Dickinson House Fire Works	Limited
Follow Up audit on starters and Leavers	Substantial
Follow Up audit on Purchase card Payments and Staff Expense Claims	Substantial

## 10. Scope limitations

- 10.1 The internal audit plan cannot address all risks across the Council and the plan represents our best use of the available resources. The annual opinion draws on the work carried out by Internal Audit during the year on the effectiveness of managing those risks identified by the Council and covered by the audit plan. Not all risks fall within our audit plan. However, I have confirmed there were no audits of Information Technology (IT) related risks in 2018/19. Whilst I understand IT services are outsourced, I consider this lack of review material and I am limiting the scope of my opinion to exclude IT related risks. I will ensure that IT related governance, risks and controls are subject to internal audit in 2019/20 and will engage the support of specialist IT auditors.

## 11. Internal Audit Performance

- 11.1 During the year the Internal Audit service carried two vacancies pending the outcome of the Finance restructure. In addition, one member of the Internal Audit team has been primarily focussed on counter fraud activity. To compensate, the internal audit service was supported by the engagement of a third-party provider to deliver some systems and schools audit work. The contract with the third party provider has not been extended beyond 2018/19 and the staff vacancies remain unfilled. As a result there have been delays to some audits and the 2018/19 plan has yet to be fully completed. It is anticipated that the vacancies and the appointment of a new third-party audit partner will be resolved by 30 September 2019. Any risks to delivery of the 2019/20 audit plan will be reported to management and the audit committee.
- 11.2 The Internal Audit plan for 2018/19 was agreed with the Audit Committee in March 2018 with a target of 90% completion to draft report stage by 30<sup>th</sup> May 2019. As at 30<sup>th</sup> May 2019, 92% of the audit plan was complete to at least draft report stage (after deferrals and additions have been taken into account).
- 11.3 Continuous development in the quality of the internal audit service remains a key objective. In order to obtain feedback from the organisation, when final reports are issued a 'Customer Satisfaction Survey' is issued to all officers who receive the report. Respondents are requested to provide an opinion as to the effectiveness of the audit and the relevancy of the audit recommendations provided.

- 11.4 For 2018/19, out of the 24 satisfaction surveys sent out for final reports (including Tower Hamlets Homes) 20 completed surveys were received. All 20 surveys have reported back positive outcomes indicating that the recommendations made in the internal audit report will lead to improvement in control environment.

## **12. Internal Audit's Independence**

- 12.1 During the year the Head of Internal Audit was also responsible for risk management, insurance and counter fraud activity. Having recently been appointed as the Head of Internal Audit, I have sought assurance that Internal Audit has operated independently of the organisation and there were no compromises of Internal Audit's independence in its operation this year. Going forward, and in accordance with the Public Sector Internal Audit Standards, I will be ensuring that arrangements are put in place for independent audit of the risk and insurance functions. The outcome of these audits will be reported to the Audit Committee to support their role in oversight of Internal Audit.

## **13. Conformance with the Public Sector Internal Audit Standards and the Quality Assurance and Improvement Programme**

- 13.1 During 2017, an external assessment of Internal Audit's compliance with the Public Sector Internal Audit Standards was undertaken by Kent County Council. The peer assessment concluded that out of the 56 areas of compliance, there were 5 standards where the current internal audit practices were not considered to be consistent with the requirements of the standards.
- 13.2 The areas of non-compliance identified within the report specifically relate to the following standards:
- 1300 Quality Assurance and Improvement Programme (the sum of standards 1310-1320)
  - 1320 Reporting on the Quality Assurance and Improvement Programme
  - 1321 Use of Conforms with the International Standards for the Professional Practice of Internal Auditing
  - 2450 Overall Opinions
  - 2050 Coordination & Resilience
- 13.3 An action plan was developed to address all the above points and was kept under review by the service. Upon completion of the actions, the outcomes will be reported to the Audit Committee.
- 13.4 In addition, the action plan will be refreshed after a self-assessment against the PSIAS has been completed (by 31 August 2019) and an updated action plan, including progress against the previously agreed actions will be reported to the Audit Committee.

13.5 Further work is required to be fully compliant with the standards and to embed the Quality Assurance and Improvement Programme. I will ensure that Internal Audit is conforming with all the standards by 31 March 2020. Whilst there are some standards that require further work, I am of the view that the level of compliance does not impact on my ability to provide an annual opinion over the internal control framework.