


<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>13 May 2020</p>	
<p>Report of: Asmat Hussain, Corporate Director, Governance and Monitoring Officer</p>	<p>Classification: Open (Unrestricted)</p>
<p>Internal Audit and Anti-Fraud Progress Report</p>	

Originating Officer(s)	Paul Rock
Wards affected	(All Wards);

Executive Summary

This report provides an update on progress against the delivery of the 2019/20 Annual Internal Audit Plan and highlights any significant issues since the last report to the Audit Committee in January 2020.

Recommendations:

The Audit Committee is recommended to:

1. Note the contents of this report and the overall progress and assurance provided, as well as the findings/assurance of individual reports.

1. REASONS FOR THE DECISIONS

1.1 The Accounts and Audit Regulations 2015 state that a relevant authority must ensure that it has a sound system of internal control which:

- facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- ensures that the financial and operational management of the authority is effective; and
- includes effective arrangements for the management of risk.

1.2 The Audit Committee has responsibility for oversight of the arrangements for governance, risk management and control and this report assists the Committee in discharging its responsibilities.

2. ALTERNATIVE OPTIONS

2.1 None.

3. DETAILS OF THE REPORT

Progress and Finalisation of the 2019/20 Internal Audit Plan

- 3.1 In the last year the service has faced significant resource issues and our progress has now been hampered further by the Covid-19 pandemic. Before the pandemic occurred we attempted to recruit to the vacant posts but were unable to secure sufficient applications from suitably qualified and experienced auditors. As a result of the pandemic, we have not yet re-advertised these posts.
- 3.2 In light of the current challenges we have critically and objectively reviewed our progress against the 2019/20 plan. We have determined which of the outstanding audits we think can be finalised in the first quarter of 2020/21 and be used to inform the 2019/20 annual internal audit opinion. The outcome of this review is summarised below. Having completed this review we are confident that sufficient work will have been completed to provide an evidence based opinion for 2019/20 in July 2020; however finalising these audits will require management to provide timely responses and understandably some services are under significant pressure.

Table 1 – Completed Audits for 2019/20

<p>Substantial Assurance</p> <ul style="list-style-type: none"> • Outdoor Education Service • Treasury Management • Income Maximisation • Members Training and Induction – Follow Up • Management of Child Protection Case Conferences follow up • Deprivation of Liberty Safeguards Follow Up • Management of Dangerous Structures Follow Up • Governance Arrangements for the In-sourcing of Refuse Collection Services. • Insurance 	<p>Limited Assurance</p> <ul style="list-style-type: none"> • Client Monitoring of Fire Safety in Residential Dwellings • Request for Quotation (RFQ) System (2018/19?) • Debtors Systems Audit • Right to Work Compliance • Management and Control of Electronic Parking Income • Quality Assurance for Children’s Social Care • Efficiency Savings • Purchase Cards (Follow up) • Risk Management • NRPF (Children’s). • NRPF (Adults)
<p>Nil Assurance</p> <ul style="list-style-type: none"> • Guardian Angels Primary School 	

Table 2 – Audits at the Draft Report stage for 2019/20 (Draft opinions are subject to change and the draft report may not have been issued yet)

<p>Substantial Assurance</p> <ul style="list-style-type: none"> • Health & Safety • Data Security and Protection Toolkit • AEG Contract Monitoring • Kobi Nazrul Primary School 	<p>Limited Assurance</p> <ul style="list-style-type: none"> • Financial Safeguarding for the Learning Disabled • Review of Financial Delegations • IR35 Off Payroll Engagement
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<ul style="list-style-type: none"> • Osmani Primary School • Planning Decisions • Ben Jonson Primary School • St Johns Primary School • Mayflower Primary School 	<ul style="list-style-type: none"> • Christ Church Primary School
<p>To be decided</p> <ul style="list-style-type: none"> • Capital Programme Governance. • Key Decision Process, incl. Mayoral & Officer Decisions • Acquisition of Properties for Homelessness-Management & Control • Deputyships and Appointeeships • Creditors • Stepney Greencoat Primary School • Bowden House Special School 	

Table 3 – Audits at the Fieldwork stage for 2019/20

<ul style="list-style-type: none"> • General Ledger • Revenue and Capital Budgetary Control • Grants to Voluntary Sector Organisations. • Corporate Governance. • Housing Allocations and Lettings. • Financial Assessments, Billing & Recovery 	<ul style="list-style-type: none"> • Harbinger Primary School • IT - Business Continuity and Back Up • IT - Software Asset Management • IT - Strategy and Governance
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3.3 14 audits from the 2019/20 cannot be delivered and we are evaluating these to determine which need to be carried forward into the 2020/21 plan and which will be cancelled in favour of higher risk areas. These audits include¹:

- CCTV
- Group School PFI - Contract Monitoring
- Delivery of Efficiency Savings
- Performance Management
- Fire Risk Assessment and Enforcement
- Pensions Administration
- NNDR
- Debtors and Income Recovery Follow Up
- New Town Hall Building Project
- English Martyrs RC Primary School
- Bigland Green Primary School
- St Matthias Primary School
- Central Foundation Girls Secondary School
- Sir John Cass Redcoat Secondary School

¹ The contract monitoring, delivery of efficiency savings and new town hall projects have already been included in the current 2020/21 annual plan.

3.4 In addition, the service provides Internal Audit and Anti-Fraud activity to Tower Hamlets Homes. Of the original 8 planned audits for Tower Hamlets Homes, 1 has been deferred to 2020/21 and this has been replaced by another audit. Of these, 2 are at the planning stage, 2 are at fieldwork stage, 2 are at draft report stage and 2 audits have been finalised. Separate reports on progress and outcomes are provided to the Tower Hamlets Homes Finance and Audit Committee.

Overview of Finalised Audits

3.5 Since the last report that was presented to the Audit Committee in January 2020, 7 final reports have been issued. In summary, 4 audits have been issued with Limited assurance and 2 with Substantial Assurance; the final 7th report related to a review of the SEND Transport overspend, which did not include an opinion. Summaries of the key findings and recommendations of all these audits are available at Appendix A.

Limited Assurance

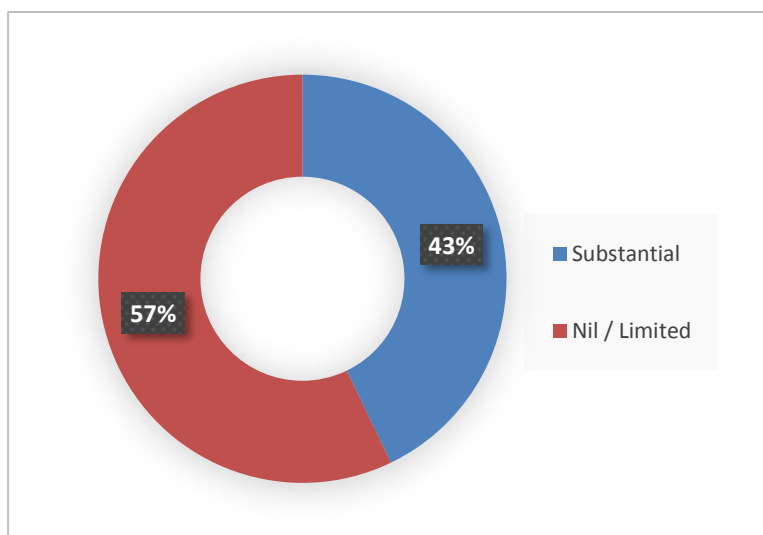
- Efficiency Savings
- Purchase Cards (Follow up)
- Risk Management (Substantial for system design but Limited for its application).
- No Recourse to Public Funds (Children's)
- No Recourse to Public Funds (Adults)

Substantial Assurance

- Governance Arrangements for the In-sourcing of Refuse Collection Services.
- Insurance

3.6 Overall, the assurance picture for all final reports issued to date is 57% of audits providing Limited or Nil Assurance and 43% providing Substantial Assurance.

Chart 1 – Summary Assurance Opinions



- 3.7 In addition to the finalised audits there are a number of draft reports awaiting management responses. The following table details these reports, including when they were issued to management and the draft opinion.

Audit	Draft Opinion	Directorate	Date Issued	Reminders Sent
Review of Financial Delegations	Limited	Resources	13/12/2019	17/02/2020
IR35 Payroll Engagements	Limited	Resources	16/12/2019	02/04/2020
Monitoring of Domiciliary Care Contracts	Limited	Adults	07/01/2020	22/01/2020 05/03/2020
Data Security & Protection Toolkit	Substantial	Governance	30/01/2020	19/02/2020 05/03/2020 02/04/2020
Health and Safety	Substantial	Place	18/02/2020	11/03/2020
Financial Safeguarding for the Learning Disabled	Limited	HAC	16/03/2020	24/03/2020
AEG Contract Monitoring	Substantial	C&C	23/03/2020	24/04/2020

Implementation of Agreed Management Actions

- 3.8 In each instance where weaknesses have been identified, Internal Audit has obtained an agreed management action plan to address the weaknesses and improve the risk management, governance and/or controls.
- 3.9 Historically, internal audit has followed up high and medium priority recommendations six months after the issue of the final reports to assess the progress made in implementing the agreed actions.
- 3.10 We have reviewed our approach to following up management actions and reporting progress to the Audit Committee and have provided a summary of the new process in the covering report accompanying the draft internal audit plan. We will implement the new process from May 2020.

Public Sector Internal Audit Standards

- 3.11 The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to periodically self-assess conformance against the standards and report to the Audit Committee any partial or non-conformance as well as a plan to address any such issues.
- 3.12 The Committee were previously advised of the self-assessment for 2019/20 and the resulting action plan to address the areas of partial/non-compliance. Progress against this action plan is summarised in Appendix B. Actions that have previously been reported to the Committee as completed have been removed from the update.
- 3.13 In December 2017 Councillor's Wood, Ronald and Hassell wrote to the former Corporate Director Resources and made a number of recommendations to improve internal audit and risk management. A copy is attached at Appendix

C. At the last Audit Committee the Committee requested an update on progress against those recommendations. The following table summarises progress and/or provides a response.

Recommendation	Progress / Response
The Head of internal audit should report to Section 151 Officer rather than the deputy.	The Head of Internal Audit currently reports to the Corporate Director, Governance (Monitoring Officer).
At least one of the statutory officers should attend every audit committee	The Corporate Director of Resources (s.151 Officer) and Corporate Director, Governance (Monitoring Officer) attend the Audit Committee regularly.
Committee to be tougher when requiring that appropriate level officers appear before it in response to nil and limited assurance reports	The Audit Committee now routinely requests the attendance of officers (Divisional Director and/or Head of Service) to present updates in response to nil and limited assurance reports.
Committee to take a firm line on the timely implementation of recommendations.	A new process is being introduced from May 2020 which will provide the Audit Committee with additional information so that it can more closely monitor the progress of agreed management actions.
Recommendations to be monitored monthly by CLT and chair of Audit Committee to ensure that they are being implemented on time.	A new process is being introduced from April 2020 which will include a Tracker being issued to all members of CLT on at least a bi-monthly basis. The Audit Committee will now receive additional information so that it can more closely monitor the progress of agreed management actions.
Chief Executive to attend March 2018 meeting of audit committee to report on progress on the recommendations contained within the report KCC report.	Progress against the recommendations has been reported to the Audit Committee.
Chief Executive to attend each March meeting of the audit committee and present on the overall health of governance and culture in the Council	Chief Executive agreed to present the Annual Governance Statement.
Independent members with specialised knowledge and high professional status to be co-opted onto audit committee.	An Independent Person has been appointed and now attends the Audit Committee.
More strategic audits relating to the	The annual internal audit plans in

Recommendation	Progress / Response
overall governance of the organisation [but] retain some balance between strategic and more detailed audits. The detailed work can reveal systemic problems which might be missed at a strategic level.	2019/20 and 2020/21 cover a broad range of activity including operational and strategic level audits.
Every directorate to have an updated risk register by January	Work continues to support directorates to maintain up to date risk registers. Going forward the Audit Committee will have the opportunity to review Directorate level risks.
CLT to present their risks to each other and the Executive Mayor at a meeting In February 2018, perhaps after cabinet, to promote ownership of the risks, ensure we have the right ones and raise the profile of the risk register.	CLT routinely discuss their risks at CLT meetings which the mayor attends.
The Chief Executive to own and present the corporate risks.	Corporate level risks are usually owned by the relevant Corporate Director. The Chief Executive owns a small number of corporate, strategic level risks.
Internal audit and counter fraud plans to be aligned with the risk register.	The internal audit and anti-fraud plans are aligned to the Council's key risks.
A risk section in each internal audit & fraud report to link to the risk register.	Engagement plans and subsequent reports include a clear link to corporate, directorate and/or inherent risks.
Audit committee to assess in depth one directorate risk per municipal year.	Going forward the Audit Committee has requested to review a Directorate risk register at each quarterly meeting.
The Committee would like to see some benchmarking of the Council's risk register against those of other Councils.	Risk benchmarking will be provided to an Audit Committee during 2020/21.
We would like to see audit conclusions move to a scale of five points rather than four: nil, limited, adequate, substantial, full. We believe this might present a more representative picture of the overall health of the Council.	From April 2020 the Council will adopt the 4 point audit opinion scale recommended by the Chartered Institute of Public Finance and Accountancy who set the standards for accounting and audit for Local Government.

4. EQUALITIES IMPLICATIONS

4.1 There are no specific statutory implications.

5. OTHER STATUTORY IMPLICATIONS

5.1 Other than the Accounts and Audit Regulations 2015 there are no other statutory implications.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 Other than the requirements on the authority and responsible financial officer set out in the Accounts and Audit Regulations 2015, there are no significant financial implications.

7. COMMENTS OF LEGAL SERVICES

7.1 This report is compliant with the Council's legal duties in respect of risk and internal audit. It also demonstrates compliance with the Corporate Director Resources' statutory duties under s.151 of the Local Government Act 1972.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix A Internal Audit Summaries
- Appendix B Action Plan for Public Sector Internal Audit Standard
- Appendix C External Quality Assessment Recommendation Letter

Local Government Act, 1972 Section 100D (As amended)

List of "Background Papers" used in the preparation of this report

- NONE

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