



Head of Internal Audit's Annual Report and Opinion 2022-23

1. Background

Introduction

- 1.1 This report summarises the results of the work that Internal Audit has carried out in accordance with its annual plan for 2022-23.
- 1.2 Internal Audit follows the Public Sector Internal Audit Standards (PSIAS) which encompass the mandatory elements of the Global Institute of Internal Auditors' (IIA Global) International Professional Practices Framework (IPPF). They also include additional requirements and interpretations for the UK public sector.

Content of this Report

- 1.3 The PSIAS require the Head of Internal Audit to provide an annual report to the Council, timed to support the Annual Governance Statement. They also state that the Head of Internal Audit should report periodically on significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management. This report is designed to meeting those requirements for 2022-23 and it also includes:
- The Head of Internal Audit's annual opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e., the control environment) including:
 - a summary of audit work from which the opinion is derived, including any reliance placed on work by other assurance bodies
 - any qualifications to the opinion, together with explanation
 - disclosure of any impairments or limitations in the scope of Internal Audit work carried out during 2022-23.
 - Any significant risk or control issues that are judged relevant to the preparation of the Annual Governance Statement and the Council's Statement of Accounts.
 - The work undertaken in line with Internal Audit's Quality Assurance and Improvement Programme (QAIP) including:
 - a statement on conformance with the with the PSIAS and IIA Code of Ethics
 - annual confirmation of the organisational independence of Internal Audit's activity

Disclaimer

- 1.4 This report has been prepared for the use of the Audit Committee and Senior Management of the Council. Details may be made available to specified external agencies, including the external auditor, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared and is not intended for any other purpose.

2. Head of Internal Audit's Annual Opinion

Basis of the Annual Opinion

- 2.1 The outcome of the audits undertaken during the year by Internal Audit forms the primary basis of the annual audit opinion over the adequacy and effectiveness of the governance, risk, and control framework. Additionally, there has also been recourse to the following sources of evidence and assurance:
- Anti-fraud and fraud investigations
 - Follow up of management actions
 - The Council's governance and risk management framework
 - Inspections and external reviews, including work undertaken by the external auditor.
- 2.2 As agreed by the Audit Committee in May 2020, a revised four-point opinion scale was adopted and has continued to be used throughout 2022-23. Further details are included at Appendix A. This opinion scale is used for grading individual audit reviews and the Head of Internal Audit's annual opinion, as set out below.

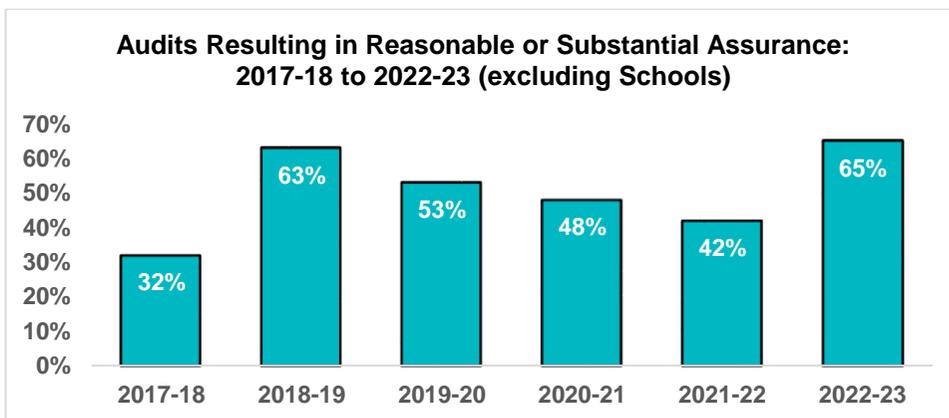
Head of Internal Audit's Opinion Statement for 2022-23	The Head of Internal Audit's Opinion for 2022-23 is that having considered the relevant evidence, it is my opinion that I can provide Reasonable Assurance that the Council has adequate systems of governance, risk management and internal control.
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- 2.3 When considering the opinion readers should note the following:
- This opinion is based solely upon the areas taken into consideration and it is not affected by any specific impairments or scope limitations
 - Assurance can never be absolute, neither can Internal Audit's work be designed to identify or address all weaknesses that might exist
 - Responsibility for maintaining adequate and appropriate systems of governance, risk management and internal control resides with the Council's management and not Internal Audit.
- 2.4 The opinion for 2022-23 is an improvement on the previous year [when a Limited Assurance opinion was issued] and is driven primarily by an improvement in the results of Internal Audit work with 65% of audits resulting in Substantial or Reasonable Assurance. The equivalent figure for 2022-23 the figure was 42%.

3. Detailed Audit Results

2022-23 Deliverables

- 3.1 This report summarises the results of the work that Internal Audit has carried out in accordance with its annual plan for 2022-23 and supplemented by any agreed management requests for audit or consultancy work during the year. Any changes to the agreed plan, including audits that were deferred or cancelled have been reported to Audit Committee for approval. Appendix B summarises the results of the audits carried out during 2022-23 (excluding schools).
- 3.2 23 audit assurance reviews (excluding schools) were completed out during 2022-23 which yielded the following breakdown of audit opinions:
- 1 (4%) Substantial Assurance
 - 14 (61%) Reasonable Assurance
 - 8 (35%) Limited Assurance
 - 0 (0%) Low Assurance
- 3.3 As shown below, the graph clearly demonstrates that the results of Internal Audit work improved considerably from 2021-22 to 2022-23. Moreover, it also breaks the trend which saw Internal Audit results deteriorate progressively year on year from 2018-19 to 2021-22.



Schools Audits

- 3.4 Following the Covid-19 Pandemic a full programme of schools' audits was reinstated during 2022-23. 15 schools were audited during this period resulting in 10 Reasonable Assurance, 4 Limited Assurance and 1 Substantial Assurance audit opinion (refer to Appendix C for further details). A separate report detailing the key themes from this will be presented to the Audit Committee.

Implementation of Agreed Management Actions

- 3.5 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 has obtained an agreed management action plan to address the weaknesses identified and improve the system of control and compliance.
- 3.6 Of the 9 follow up audits that were completed during 2022-23, Internal Audit can confirm that of the 11 high priority issues/recommendations raised, 4 were fully implemented, 4 were partially implemented, and 3 had not been implemented. Of the 26 medium priority issues/recommendations raised, 13 were fully implemented, 12 were partially implemented, and 1 had not been implemented. Further details are shown in the table below.

Implementation of Agreed Management Actions

	High Priority	Medium Priority
Number of Agreed Management Actions Followed Up	11	26
Number of Management Actions Fully Implemented	4	13
Number of Management Actions Partially Implemented	4	12
Number of Management Actions Not Implemented	3	1
% Fully Implemented	36%	50%
% Partially Implemented	36%	46%
% Not Implemented	28%	4%

- 3.7 Overall, this shows a reasonable response to agreed actions, which is consistent with the previous year's performance. For 2022-23, 72% (2021-22: 86%) of the high priority actions and 96% (2021-22: 86%) of the medium priority actions reviewed have either been fully or partially implemented. An improvement in the timely implementation of high priority actions is something that management should address during 2023-24.

Future Outlook

- 3.8 A number of risks lie ahead for the Council, some of which are localised, and some which are common across the sector (e.g., financial sustainability, cyber-attack causing data loss/service denial, and the failure of safeguarding processes). Perhaps most significantly will be the organisational challenges associated with delivering on the Council's Strategic Plan for 2022-26 against a backdrop of significant organisational transformation and change, coupled with the need to identify £37m of savings from 2024/25. Maintaining a robust system of internal control and risk governance will help to navigate these challenges, though some instability should be expected, which may in turn impact the outcomes of Internal Audit's work for 2023-24.

4. Anti-Fraud and Investigations

Investigations

- 4.1 During 2022-23 anti-fraud and investigations activity has been regularly reported to the Audit Committee. The Fraud Investigations Team is comprised of the following sub-teams:
- Intelligence
 - Social Housing
 - Corporate Investigations
 - Blue Badge Parking Permits
- 4.2 There is also an investigator in the Insurance Service who examines the integrity of insurance claims to eliminate fraudulent submissions and repudiate inappropriate claims. In addition, the Internal Audit and Fraud Prevention Team undertakes activity to support the Council in reducing its fraud and corruption risks, this includes co-ordinating the Council's participation in the National Fraud Initiative, a biennial proactive data matching exercise run by the Cabinet Office in which each local authority must participate, along with a number of initiatives to raise awareness of the council's anti-fraud and corruption culture.
- 4.3 During 2022-23, 38 corporate/internal referrals in respect of alleged fraud were received. These included referrals received via the Council's whistleblowing procedure. 275 referrals were received in respect of suspected social housing fraud matters. In addition, 71 insurance claims have been investigated.
- 4.4 The positive outcomes achieved following the investigation of the above matters includes the following:
- 44 Insurance claims were repudiated or discontinued with a reserve value of £380,428
 - 33 Social Housing properties were recovered
 - 7 Right to Buy applications were stopped
 - 1 criminal conviction
 - 2 profit orders totalling £267,207.51
 - 105 Blue Badges were seized.
- National Fraud Initiative**
- 4.5 Initial matches from the biennial National Fraud Initiative (NFI 2022-23) data matching exercise were received by the Council in January 2022. The potential fraud matches have been reviewed using the recommended prioritisation filters, with services instructed to review selected cases. The total number of matches received so far is 9,978 and of these 1,992 were considered high or medium risk. To date, a total of 223 have been reviewed, with 155 closed with no issues, 7 identified as errors, and 61 cases identified where fraud may have occurred, and appropriate actions have been taken to resolve. Detailed reports about the current NFI arrangements and progress made have been regularly provided to the Audit Committee.

- 4.6 The Internal Audit and Fraud Prevention Team also included detailed reviews of ‘No Recourse to Public Funds’ applications, and the Corporate Anti-Fraud Manager has been an active member of the London Borough’s Fraud Investigation Group.

5. Other Sources of Assurance

Third Party Assurance

- 5.1 The Head of Internal Audit’s Opinion is also informed by the work and assurances that available from third parties resulting from work undertaken during 2022-23, the results of which are summarised below:

External Audit

- 5.2 This remains a challenging area both locally and nationally in the local government sector. The Council’s external auditor has recently indicated that sign-off of the 2018-19 and 2019-20 statement of accounts is imminent, though it is expected that the audit opinion will be qualified both years.
- 5.3 Whilst positive steps have been taken to address the timeliness and accuracy of the Council’s financial statements, the 2020-21, 2021-22 and 2022-23 accounts audits remain outstanding, and this is therefore an area which requires ongoing work to ensure improvements are embedded and that positive momentum continues. Similarly, the Annual Governance Statements for the period 2020-21 onwards have yet to be prepared. Whilst this represents a considerable backlog of work, it should be acknowledged that this is national issue with the backlog of local government audits in England standing at 632 in December 2022, with a reported possibility that the number may exceed 1,000 by the end of 2023.

Other Inspection Work

- 5.4 Following the pandemic, there was a phased return to most inspection activity with a bias towards understanding the impact and challenges that the pandemic brought about. During the 2022-23 work by external review bodies/inspectors comprised the following:
- An inspection of the Youth Offending Service which issued an overall rating of Requires Improvement in July 2022. An external peer review of Youth Justice was commissioned and took place in February 2023 and their judgement was that good progress had been made in driving the improvement plan that was put in place with new leadership following the inspection
 - An Ofsted Focused visit to London Borough of Tower Hamlets children’s services was carried out in July 2022. The report from this inspection was very positive about the service that the Council is providing to its children in care
 - An Ofsted short inspection of Idea Store Learning was carried out in January 2023 – this concluded with an overall ‘good provider’ rating
 - A Home Office Prevent Benchmark Performance Review was carried out in March 2023 – this concluded that the ‘service is exceeding requirements against all duties’.

6. Quality and Improvement

Quality Assurance

6.1 The PSIAS state that Head of Internal Audit must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. These arrangements currently include:

- regular internal and external quality assessments to gauge the level of compliance with the PSIAS and IIA Code of Ethics
- undertaking, reviewing, and acting on client satisfaction feedback - 30 survey responses were received during this period and they will be used to drive improvements in the audit process lifecycle
- using performance measures to assess performance of the service, such as the implementation [by management] of agreed actions

Compliance with the Standards

6.2 A self-assessment Internal Audit's compliance with the PSIAS was undertaken during the year. This concluded that out of the 56 areas of compliance there were three standards where the current Internal Audit practices were only partially conforming; in all other respects, the service was compliant with the Public Sector Internal Audit Standards.

- adequacy of resources – this has been a challenging area during 2022-23 as the service had multiple vacancies and faced delays in renewing its contract with the external contractor, BDO
- co-ordination with other assurance providers – this remains an area which is progressing but is not yet fully developed. To help better direct and inform the work of Internal Audit and co-ordinate with second line of defence, an assurance map will be developed during 2023-24
- an External Quality Assessment is now overdue – the PSIAS require that such a review should be conducted at least once every 5 years and it is intended that this be taken forward during 2023-24 through a peer group assessment process facilitated by the London Audit Group. Once completed, the results of the EQA will be reported to Senior Management and the Audit Committee.

6.3 As was the case in the previous year, the self-assessment confirmed that Internal Audit has continued to comply with the IIA's Code of Ethics.

Internal Audit's Independence

6.4 As previously reported to the Audit Committee, the Head of Internal Audit is also responsible for the Council's Risk Management and Insurance services. To manage the risk to organisational independence, as and when these areas are subject to internal audits, the work is undertaken by the audit contractor and reported to Management and the Audit Committee in the usual fashion. Since, these services were not audited during 2022-23 and therefore Internal Audit has operated independently of the organisation and there were no compromises of Internal Audit's independence in its operation during this period.

Appendix A: Assurance opinion levels

Opinion		Definition
Substantial	Positive 	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable		There is a generally sound system of governance, risk management and control in place. Some issues, noncompliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	 Adverse	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and/or control to effectively manage risks to the achievement of objectives in the areas audited.
Low		Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and/or control is inadequate to effectively manage risks to the achievement of objectives in the areas audited.

Appendix B: Detailed audit results

Audit Title		Priority	Opinion	Status
1	Management and Monitoring of Council's Contribution to Climate Change Agenda		Limited	Final
2	Mobile Device Management		Reasonable	Final
3	Staff Recruitment and Pre-employment checks		Reasonable	Final
4	Management of Regeneration Projects		Reasonable	Final
5	Contract Monitoring of Electrical MTC Works		Reasonable	Final
6	Readiness for the New Building Safety Legislation		Reasonable	Final
7	Management of Members' Interests, including Related Party Interests		Limited	Final
8	Payments without orders (AP1 Payments)		Reasonable	Final
9	Acting Up and Honoraria Payments		Reasonable	Final
10	Educational Psychologists - Service Review		Reasonable	Final
11	Contract Management and Monitoring of a sample of IT Contracts		Reasonable	Final
12	Compliance Testing of Schools Licensed Deficit process		Reasonable	Final
13	Brady Arts Centre – Regularity Audit		Reasonable	Final
14	Property Disposals – Place		Limited	Final
15	Section 106 Planning Obligations - Place		Reasonable	Draft
16	Compliance Testing of Bank Reconciliation Process		Substantial	Draft
17	Homelessness Assessments		Limited	Draft
18	Management and control of cost-of-living payments		Limited	Draft
19	Eva Armsby Family Centre		Limited	Draft
20	Children and Culture – Petty Cash Management		Limited	Final
21	Signing and Sealing of Documents (including Retention)		N/A	In Progress
22	Council Tax		N/A	In Progress
23	Revenue Budgetary Control		Reasonable	Final
24	Equality Assessment		N/A	In Progress
25	Children's Safeguarding Partnership – Monitoring of the Action Plan		Reasonable	Draft
26	Land Searches		N/A	In Progress
27	Control and Monitoring of DBS Checks		Limited	Draft

Appendix C: Schools audit results

	School	Opinion	Status
1	Bangabandhu Primary School	Limited	Final
2	Blue Gate Fields Junior School	Limited	Final
3	Central Foundation Girls Secondary School	Reasonable	Final
4	Chisenhale Primary School	Reasonable	Final
5	English Martyrs Primary School	Reasonable	Final
6	Hague Primary School	Reasonable	Final
7	Hermitage Primary School	Reasonable	Final
8	Mowlem Primary School	Reasonable	Final
9	Stepney All Saints Secondary School	Limited	Final
10	Stepney Park School	Substantial	Final
11	St Mary's and St Michael's RC Primary School	Limited	Final
12	St Peters London Dock Primary School	Reasonable	Final
13	Stewart Headlam Primary School	Reasonable	Final
14	William Davis Primary School	Reasonable	Final
15	Bow Secondary School	Reasonable	Final