

Head of Internal Audit's Annual Report and Opinion 2023-24

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 2023-24.
- 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 2023-24 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 2023-24.
 - 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 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.
- 2.3 As agreed by the Audit Committee in May 2020, a revised four-point opinion scale was adopted and has continued to be used throughout 2023-24. Further details are included at **Appendix C**. This opinion scale is used for grading individual audit reviews and the Head of Internal Audit's annual opinion, as set out below.

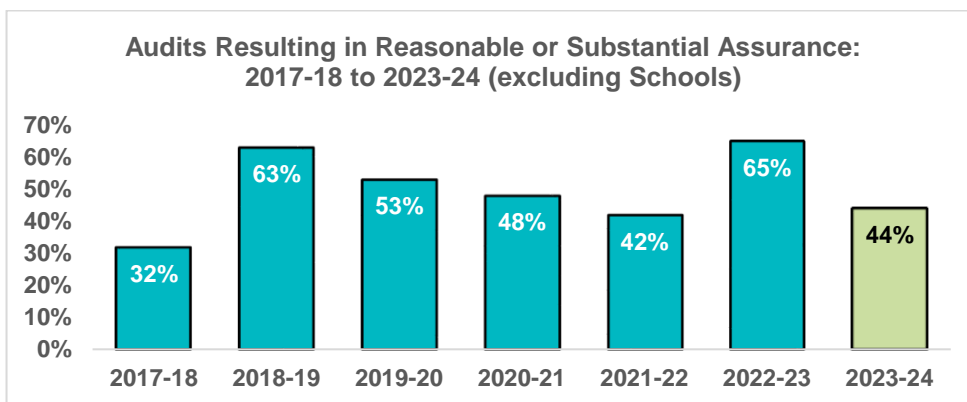
Head of Internal Audit's Opinion Statement for 2023-24	The Head of Internal Audit's Opinion for 2023-24 is that having considered the relevant evidence, it is my opinion that I can provide Limited Assurance that the Council has adequate systems of governance, risk management and internal control.
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- 2.4 The opinion for 2023-24 is a deterioration on the previous year [when a Reasonable Assurance opinion was issued] and is driven primarily by a decline in the results of Internal Audit work with 44% of audits resulting in Substantial or Reasonable Assurance. The equivalent figure for 2022-23 was 65%.
- 2.5 The above result is not entirely unexpected and last year's report referenced '*...a backdrop of significant organisational transformation and change*' and stated that '*...some instability should be expected, which may in turn impact the outcomes of Internal Audit's work for 2023-24.*' Conversely, as the People First transformation progresses, Internal Audit would expect organisational turbulence to decline, with a sustained improvement in audit outcomes starting to take shape during 2024-25.

3. Detailed Audit Results

2023-24 Deliverables

- 3.1 This report summarises the results of the work that Internal Audit has carried out in accordance with its annual plan for 2023-24 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 A** summarises the results of the audits carried out during 2023-24 (excluding schools).
- 3.2 39 audit assurance reviews (excluding schools) were completed out during 2023-24 which yielded the following breakdown of audit opinions:
- 1 (3%) Substantial Assurance
 - 16 (41%) Reasonable Assurance
 - 22 (56%) Limited Assurance
 - 0 (0%) No Assurance
- 3.3 As shown below, the graph indicates the time series data from 2017-18 to 2023-24, though there is no systematic trend or pattern.



Schools Audits

- 3.4 Following the Covid-19 Pandemic a full programme of schools' audits was reinstated during 2022-23. During 2023-24 14 schools were subject to audit review resulting in 10 Reasonable Assurance, 1 Limited Assurance and 3 Substantial Assurance audit opinion (refer to **Appendix B** for further details). A separate report detailing the key themes from this workstream 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 nine follow up audits that were completed during 2023/14, Internal Audit can confirm that of the 13 high priority issues/recommendations raised, five were fully implemented, six were partially implemented, and two had not been implemented. Of the 30 medium priority issues/recommendations raised, seven were fully implemented, 17 were partially implemented, and six 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	13	30
Number of Management Actions Fully Implemented	5	7
Number of Management Actions Partially Implemented	6	17
Number of Management Actions Not Implemented	2	6
% Fully Implemented	38% (36%)	23% (50%)
% Partially Implemented	47% (36%)	57% (46%)
% Not Implemented	15% (28%)	20%

- 3.7 In the table, prior year outturn percentages are indicated in parenthesis – overall this shows that the timely implementation of agreed management actions still remains an area of concern and will need improved accountability and oversight from the newly restructured DLTs.

4. Anti-Fraud and Investigations

Investigations

- 4.1 During 2023-24 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
- 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 2023-24, 34 corporate/internal referrals in respect of alleged fraud or code of conduct breaches were received. These included referrals received via the Council's whistleblowing procedure. 262¹ referrals were received in respect of suspected social housing fraud matters. In addition, 72 insurance claims have been investigated.
- 4.4 The positive outcomes achieved following the investigation of the above matters includes the following:
- 43 Insurance claims were repudiated or discontinued with a reserve value of £342,973
 - 48 Social Housing properties were recovered
 - 9 Right to Buy applications were stopped
 - 2 criminal convictions
- ### 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 2023. The data matches that indicated potential fraud were further reviewed using the recommended prioritisation filters. Individual Directorate teams such as Council Tax, Pensions Administration, Payments, Benefits etc. were then instructed to review and investigate the matches to establish whether a potential fraud had occurred.

• ¹ 138 – Social housing Fraud from what was Tower Hamlets Homes and 124 pertaining to other RSL's which are part of the common housing register

4.6 In total there were 11,763 data matches of which 2,128 were considered high or medium risk. Further review of these cases found 19 cases where errors were identified and 207 cases of fraud. Where fraud was found, appropriate action has been taken by the relevant service teams, for example to terminate payments, seek recovery and instigate sanctions.

4.7 It should be noted that the majority of the fraud cases related to fraudulent claims of Council Tax Single Persons' Discount, where individuals were in receipt of single person discount to which they were not entitled. The other significant category of fraud related to individuals receiving Student Loans who also claimed Housing Benefit, which they are not entitled to. In total, investigation of NFI matches to date has resulted in a notional saving to the Council of £331,451.35.

Other Fraud Prevention Activities

4.8 The Internal Audit team includes a dedicated Fraud Prevention Officer role that reports to the Internal Audit and Fraud Prevention Manager. Below are details of the fraud prevention work that was conducted in the year 2023-24.

- The Fraud Prevention Officer delivered 16 Fraud Awareness training sessions across the Council. Training was delivered to individual teams such as Human Resources; Direct Payments; No Recourse to Public Funds; Right to Buy; Procurement; Central Payments; Capital Delivery; Blue Badges; Lettings and Housing Options. Training was also delivered to LEA School Bursars
- Key Council policies such as the Anti-Fraud Strategy, Bribery Policy, Recruitment and Selection policy, Gifts and Hospitality Policy and Secondment Policy were reviewed prior to formal roll out
- Fraud Awareness E-learning was launched on the Learning Hub and made available as part of induction programme for new starters
- Provided on-going anti-fraud support, vetting, advice, and guidance to the No Recourse to Public Funds Team.

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 2023-24, 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, though after much delay, the Council's Statement of Accounts for 2018/19 and 2019/20 were signed off by the external auditor during November 2023, though they received qualified audit opinions.
- 5.3 The Council has also published its draft financial statements for 2020/21, 2021/22, 2022/23 and 2023/24 – these are all available from the Council's website. The publication of the 2023/24 draft accounts on 31st May 2024 was highly significant as it is the first time that the Council had met the statutory date since 2018/19. This indicates a positive shift in momentum and genuine progress in addressing a long-standing issue that has weighed heavily on the Council's financial governance.
- 5.4 Nevertheless, the external audit of these financial statements has been delayed as a consequence of issues affecting the finalisation of the 2018/19 and 2019/20 financial statements. The delay in finalising audits is acknowledged as a national issue and there is a significant number of delayed audit opinions across the sector. DLUHC is proposing to address this through a statutory 'system reset', though a longer-term solution remains elusive.

Other Inspection Work

- 5.5 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 2023-24 work by external review bodies/inspectors comprised the following:
- A Local Government Association Corporate Peer Challenge was undertaken during September 2023. The resulting report recognised that the Council 'is still adjusting to changes and challenges' after 'going through a period of significant change in the last eighteen months, with a new Mayor and, a new Chief Executive, as well as a move to new Council offices. Despite these changes, the Peer Review found the Council was delivering at speed with the help of 'highly skilled, dedicated people who are evidently committed to delivering the best outcomes for the borough's residents.' It went on to say that: 'Both members and officers should be commended for the delivery against the election promises to date and in particular the speed of the implementation of universal free school meals for all children up to age 16, and the implementation of the Educational Maintenance Allowance for sixth form and college students. The report included 18 core recommendations which are the subject of a detailed action plan which the Council has published alongside the Corporate Peer Challenge Report on the Council's website
 - Investors in People - During 2023 the Council retained its Silver accreditation and continues its journey to Gold. The assessors gathered evidence through 100 staff interviews and a staff survey. They also attended events such as the Staff Conference and Awards ceremony, Chief Executive Roadshow and the Innovation POD session on creating award winning entries. The Council achieved Gold level in 11 of the 27 themes, three more than in 2020

- Adult Social Care Peer Review - As part of the preparation for a Care Quality Commission inspection of Adult Social Care (the date of which has yet to be announced), the Council underwent a Peer Review by the London Association of Directors of Adult Social Services (ADASS) in January 2024. The Peer Review Team included colleagues from adult social care departments from other local authorities in London, as well as a 'person with lived experience' of adult social care. Around 150 staff and partners spent time with the Peer Review Team as part of the on-site visit. The review highlighted many strengths, including the passion and commitment of the workforce; the reflective culture of learning and improving; the stable structure; and strong partnerships with health services and the community
- SEND LGA peer review – this review found progress and improvements across several areas. Most notably, it concluded that the commitment and drive to improve the outcomes for children and young people with SEND are visible across the partnership and also that the SEND Improvement Board has driven the improvements at a strategic level. Conversely, the report noted that there remains inconsistency of practice across the system which continues to impact on the lives of children, young people and their families, and that there is an opportunity to strengthen whole system connectivity, vision and joint ownership
- Best Value Inspection - On Thursday 22 February 2024, the Department for Levelling Up, Housing and Communities notified the Council of an inspection to provide assurance of improvement progress in the Council. The Secretary of State decided to commission this inspection to provide him with direct, independent assurance that the Council is complying with its Best Value Duty. This duty requires the Council to make arrangements to secure continuous improvement in the way in which its functions are exercised, with regard to economy, efficiency and effectiveness. At the time of writing, the inspection process had been extended from May to July 31st and will encompass review of the Council's arrangements in relation to the General Election on 4th July.

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 - 18 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 Previously, it has been reported that Internal Audit's compliance with the PSIAS and Code of Ethics was measured using a self-assessment. However, at the time of drafting this report External Quality Assessment is currently underway – this is expected to conclude imminently and will include a formal assessment of Internal Audit's compliance status.
- 6.3 In general terms, the self-assessment has highlighted the following areas of weakness (i.e., partial conformance) that need to be addressed:
- adequacy of resources – this has continued to be a challenging area during as the service had multiple vacancies during the year
 - 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

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 2023-24 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: Detailed audit results

Audit Title		Directorate	Priority	Opinion	Status
1	Equality Assessment	Corporate	1	Limited	Draft
2	Corporate Governance Improvement Plan – Follow Up	Corporate	1	Advisory	Draft
3	Management of Waivers to Financial Regulations	Corporate	1	Limited	Draft
4	Management and Control of Staff Gifts and Hospitality	Corporate	2	Reasonable	Final
5	Performance Management	Corporate	1		In Progress
6	Scheme of publication (Transparency Code)	Corporate	1	Limited	Final
7	Risk Management	Corporate	1	N/A	Deferred to 2024-25
8	Management and Control of Market Supplements	Corporate	2	Advisory	Final
9	Attendance Management	Corporate	1	Limited	Final
10	Management & Monitoring of Disclosure & Barring Service Checks	Corporate	1	Limited	Final
11	Signing and Sealing of Documents (including Retention)	Chief Executive's	1	Limited	Final
12	Grants to Voluntary and Community Organisations	Chief Executive's	1	Reasonable	Final
13	Management of Transformation Programme and Projects	Chief Executive's	2	N/A	Cancelled
14	Procurement of Legal Advice	Chief Executive's	2		In Progress
15	Financial Systems - Council Tax	Resources	1	Reasonable	Final
16	Financial Systems - Creditors	Resources	1	Limited	Final
17	Financial Systems - Debtors	Resources	1	Reasonable	Draft
18	Financial Systems - General Ledger	Resources	1	Limited	Draft
19	Financial Systems - School Accounts End of Year Reconciliations	Resources	1	Reasonable	Draft
20	Homeless – Arrears Management	Resources/Housing and Regeneration	1	Limited	Final
21	Pre-payment Cards	Resources	2	Limited	Final
22	Housing Benefit quality assurance systems	Resources	1	Advisory	Final
23	Registrars Service	Resources	1	Substantial	Final
24	Procurement – Requisition for Quotation (RFQ) system	Resources	1	Limited	Final
25	Business Support SLAs delivery and performance	Resources	2	N/A	Cancelled
26	Management of Members' Enquiries	Resources	2		In Progress
27	Idea Stores – Regularity Audit	Resources	2	Limited	Final



Appendix A: Detailed audit results

28	Virtual infrastructure (IT Audit)	Resources	1	Reasonable	Final
29	Software Licenses - Management and Control	Resources	1	Reasonable	Final
30	Recruitment and Vetting of Enforcement Officers	Communities	1	Advisory	Final
31	Management and Monitoring of Fixed Penalty Notices	Communities	2	Limited	Draft
32	Domiciliary Care - Procurement Advisory work	Health and Adult Social Care	1	Advisory	In Progress
33	Direct Payments	Health and Adult Social Care	1	Reasonable	Final
34	Contract Monitoring	Health and Adult Social Care	1	N/A	Cancelled
35	Holiday Playschemes	Children's Services	1		Cancelled
36	Supporting Stronger Families Grant Certification	Children's Services	1	Grant Audit	In Progress
37	SEND Improvement Plan	Children's Services	1	Limited	Draft
38	King George Field's Trust – governance	Communities	2		In Progress
39	Education Maintenance Allowances and Bursary Payments	Children's Services	1	Reasonable	Final
40	Youth Service Insourcing – Advisory	Children's Services	1		In Progress
41	Commissioning of Sports Activities – Advisory	Communities	1	Advisory	Final
42	Land Searches	Housing and Regeneration	1	Reasonable	Final
43	Passenger Transport Services	Communities	1	Limited	Draft
44	Management and Monitoring of S106 Planning Obligations	Housing and Regeneration	1	Reasonable	Final
45	Property Disposals	Housing and Regeneration	1	Limited	Final
46	Planning and Building Control Fees and Charges	Housing and Regeneration	2	N/A	Deferred to 2024-25
47	Licensing	Communities	1	Reasonable	Draft
48	Procurement and Management of Consultants for Capital Works	Housing and Regeneration	1		In Progress
49	THH Insourcing	Housing and Regeneration	1	Advisory	In Progress
50	Post Contract Review – New Town Hall	Housing and Regeneration	2	N/A	Cancelled
51	Management of Lettings of Community and Commercial Properties	Housing and Regeneration	1		In Progress
52	Management of Markets – Follow Up	Communities	1	Limited	Final
53	Management of Grants	Housing and Regeneration	2	Advisory	In Progress
54	Penalty Charge Notices – Appeals Procedure	Communities	1	Reasonable	Final
55	Homelessness Assessments	Housing and Regeneration	1	Limited	Final
56	Management of Houses in Multiple Occupation (HMO)	Communities	1	Advisory	Final
57	Management and Control of Cost-of-Living Payments	Housing and Regeneration	1	Limited	Final

Appendix A: Detailed audit results

58	Management and Control of Children's Services Petty Cash Accounts	Children's Services	1	Limited	Final
59	Eva Armsby Family Centre – Regularity Audit	Children's Services	1	Limited	Final
60	Pensions Administration – Follow Up audit	Resources		Reasonable	Draft
61	THH Financial Systems – Follow Up audit	Housing and Regeneration		Reasonable	Final
62	THH Company closure and Transfer to LBTH	Housing and Regeneration		N/A	Cancelled
63	Housing Repairs	Housing and Regeneration		Limited	Draft
64	Horticulture Service	Housing and Regeneration		Reasonable	Final

Schools Audits		Opinion	Status
1	Columbia Primary School	Reasonable	Final
2	St Anne's and Guardian Angels	Reasonable	Final
3	Woolmore Primary School	Reasonable	Final
4	Cayley Primary School	Reasonable	Final
5	Wellington Primary School	Substantial	Final
6	Halley Primary School	Reasonable	Final
7	Langdon Park School	Reasonable	Final
8	Malmesbury Primary School	Limited	Final
9	Thomas Buxton Primary School	Reasonable	Final
10	Bonner - Bethnal Green both sites	Substantial	Final
11	Phoenix Primary and Secondary Schools	Reasonable	Final
12	Stephen Hawking School	Substantial	Final
13	Ben Jonson Primary School	Reasonable	Final
14	Olga Primary School	Reasonable	Final

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.
No		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.