

LONDON BOROUGH OF CAMDEN	WARDS: All
REPORT TITLE Internal Audit Annual Report 2022-23	
REPORT OF Executive Director Corporate Services	
FOR SUBMISSION TO Audit and Corporate Governance Committee	DATE 15 June 2023
SUMMARY OF REPORT This report provides the Committee with an update regarding the work undertaken by Internal Audit, in respect of delivery of the 2022-23 Internal Audit Plan, from 1st April 2022 to 31st May 2023. Local Government Act 1972 – Access to Information No documents that require listing have been used in the preparation of this report. Contact Officer: Nasreen Khan Head of Internal Audit, Investigations and Risk Management 5 Pancras Square London N1C 4AG Telephone: 020 7974 2211 Email: nasreen.khan@camden.gov.uk	
RECOMMENDATION The Committee is asked to note the report.	

Signed: As agreed by the Executive Director Corporate Services

Date: 2nd June 2023



LB Camden Annual Internal Audit Report 2022-23

Camden and Islington Shared Internal Audit Service

1. Purpose

1.1 This report outlines the work undertaken by Internal Audit, in respect of delivery of the 2022-23 Internal Audit Plan, for the period 1st April 2022 to 31st May 2023.

1.2 This report is intended to support the Audit and Corporate Governance Committee (the Committee) in obtaining assurance that the Council has a sound framework of governance, risk management and internal control. It does this by demonstrating that the Internal Audit plan is being delivered, updating on the performance of the audit function, highlighting service areas where high priority recommendations have been made and commenting on the level of implementation of audit recommendations by management.

1.3 This report fulfils responsibilities under the Committee's Terms of Reference i.e.

- To consider reports from the Head of Internal Audit (HIA) on Internal Audit's performance during the year, including the performance of external providers of Internal Audit services. These will include:
 - updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of internal audit work;
- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions;
- To consider the head of internal audit's annual report:
 - The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.
 - The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.

1.4 The HIA annual opinion for 2022-23 is:

Moderate Assurance

The adequacy and effectiveness of the overall arrangements for the Council's systems of internal control, risk management and governance are adequate, with some improvement required.

The detailed rationale for this opinion is provided in Section 7 below.

1.5 This report details the outcomes of delivery of the 2022-23 audit plan in Appendix 1 and outcomes of follow up audits in Appendix 3. The report also provides detail on those areas where the overall assurance opinion was less than 'moderate'. Therefore summary details of high priority recommendations not previously reported to the Audit and Corporate Governance Committee have been included in Appendix 2.

2. Role of Internal Audit

- 2.1 The Council's Internal Audit function is delivered in accordance with the Public Sector Internal Audit Standards (PSIAS). A professional, independent and objective internal audit function is a key element of good governance.
- 2.2 The PSIAS defines internal auditing as 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.
- 2.3 The Council's Internal Audit function operates as a shared service with the London Borough of Islington. The primary objective of the service is to provide the Council (via the Audit and Corporate Governance Committee) with an independent and objective appraisal on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control that supports and underpins the delivery of strategic objectives. This is achieved through the delivery of a planned programme of work (the annual audit plan) based on an annual assessment of the major risks facing the Council. In addition, the service also provides consultancy and advice to management on risk and controls on an ad-hoc and proactive basis. A concerted effort is made for Internal Audit to operate independently and free from influence, and this was the case in the 2022-23 year.
- 2.4 The service operates a co-sourced service delivery model, where Internal Audit services are provided by in-house staff, with a small portion of work delivered by a co-sourced provider, currently PwC. The service also works closely and in alignment with the Risk Management and Anti-Fraud and Investigation functions, which provides a number of benefits, including increased joint-working and collaboration, and the sharing of information and intelligence.

3. Design and delivery of the 2022-23 Internal Audit Plan

- 3.1 The service complies with the requirements of the PSIAS by ensuring that an annual risk-based audit plan is devised. The Council's robust risk management processes (and action taken to identify and articulate principal risks) ensures that a solid foundation, on which to base the audit plan, exists. The risk-based audit plan is devised by mapping the Council's Principal Risk Report to internal audit activity. This approach ensures that the audit plan seeks to provide assurance that actions designed to mitigate key risks that threaten the achievement of Camden Plan objectives, are being implemented effectively. In addition to devising an annual risk-based audit plan, a rolling three-year cycle of key financial system reviews is produced. This approach ensures that there is continued assurance on the Council's key financial systems. Additionally, the audit plan also seeks to include areas in which senior management have asked for independent assurance.

- 3.2 The 2022-23 Internal Audit Plan was approved by the Audit and Corporate Governance Committee in March 2022. In drafting the 2022-23 plan, the latest iteration of the Principal Risk Report was used. This ensured that key risks were incorporated into the plan, including risks arising as a result of the pandemic.
- 3.3 In addition to the Principal Risk Report, a number of other sources of information were utilised in drafting the 2022-23 plan, including CIPFA good governance guidelines, an internal risk assessment, audit plans of other local authorities, and intelligence from previous internal audit and anti-fraud activity.
- 3.4 A concerted effort is made to ensure that the plan is resident focussed. Where audit reviews are undertaken in areas that do not directly impact residents, these reviews are undertaken to provide assurance on the Council's overall governance arrangements. This in-turn will ensure that Camden is in a better position to deliver its desired outcomes for residents.
- 3.5 In addition to the delivery of the risk-based plan, a contingency of approximately 77 audit days was retained to cover urgent and unplanned reviews arising during the year. This approach enabled Internal Audit to respond to new risks, while also proactively providing advice on risk and control as needed.

4. Internal Audit assurance opinions

- 4.1 On completion of internal audit reviews, and where appropriate to do so, a statement of assurance is provided. These statements are detailed, where relevant, within Appendix 1 of this report.
- 4.2 There are four possible assurance opinions that can be provided:

No Assurance	There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.
Limited Assurance	There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.
Moderate Assurance	An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.

Substantial Assurance

There is a sound control environment with risks to key service objectives being satisfactorily managed. Recommendations will normally only be Advice and Best Practice.

- 4.3 These conclusions are based on the number of critical and high priority risks identified in the report. The Committee receives details of high priority recommendations raised in audit reviews with less than 'moderate' assurance within Appendix 2 of this report.

5. Follow-up activity

- 5.1 Internal Audit recommendations emanating from planned audit work is subject to follow up to ensure that audit recommendations have been implemented. The level of implementation of audit recommendations is reported to Committee bi-annually. Follow-up activity undertaken in 2022-23, is summarised in Appendix 3 of this report.
- 5.2 Internal Audit periodically present open audit recommendations to Directorate Management Teams, in order to further galvanise the follow up of audit recommendations. Where engagement with audit follow ups is not forthcoming, Internal Audit will invite auditees to attend Committee meetings to explain the actions being taken to implement audit recommendations.

6. Quality Assurance and Improvement Programme

- 6.1 One of the core principles of the PSIAS is quality assurance and continuous improvement. To this end, the PSIAS require the HIA to develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of Internal Audit activity.
- 6.2 The Internal Audit service has developed a QAIP that is designed to provide reasonable assurance to the various stakeholders of the service that Internal Audit:
- performs its work in accordance with the PSIAS (including the Definition of Internal Auditing and Code of Ethics) and the CIPFA Statement on the role of the Head of Internal Audit;
 - operates in an effective and efficient manner;
 - is perceived by stakeholders as adding value and continually improving its operations; and
 - undertakes both periodic and on-going internal assessments, and commissions an external assessment at least once every five years.

Internal assessments

- 6.3 In accordance with the PSIAS, internal quality and performance assessments are undertaken through both on-going and periodic reviews.

- 6.4 On-going assessments are conducted as a matter of course, in-line with the service's protocols and audit methodology. These assessments include: management supervision of audit activity, the application of a consistent audit methodology across audits, regular 1:1's between audit management and auditors to review and monitor performance, and the review and approval of all outputs by the Audit Manager and Head of Internal Audit (HIA).
- 6.5 Regular periodic assessments are also undertaken during the year to monitor and measure the impact of, and value added by the delivery of the annual audit plan. A key aspect of these assessments comprises of the biannual progress reports presented to the Committee, which summarise progress against the annual plan and key outcomes of audit activity.
- 6.6 Another key assessment are the periodic progress reports presented to senior management, which include a summary of key outcomes identified through delivery of the audit plan, and a summary of open recommendations identified through follow-up activity. In addition, these assessments are also used as an opportunity to review and adapt the annual audit plan to ensure it continues to target areas of key risk.
- 6.7 As part of the shared service, best practice is regularly shared between Camden and Islington. This includes identifying common areas for inclusion on the audit plan, and good practice such as the review of the audit methodology and working practices.
- 6.8 Other periodic assessments include (but are not limited to):
- annual self-assessments to ensure conformance with the PSIAS;
 - regular feedback from senior management, including the Director of Finance and the S151 Officer;
 - benchmarking with other London Borough internal audit services, via the Cross Council Assurance Service and London Audit Group.

External Quality Assessment

- 6.9 The PSIAS requires that an external quality assessment (EQA) is undertaken at least once every five years to ensure continued application of the professional standards.
- 6.10 The Camden and Islington Shared Internal Audit Service was subject to an independent EQA in Q2 and Q3 2021-22. The EQA was undertaken by London Borough of Hillingdon as part of the independent peer review scheme administered by the London Audit Group.
- 6.11 The results of the EQA were reported in full to the Committee in June 2022. An action plan was put in place upon completion of the EQA exercise to monitor the implementation of recommendations, suggestions and notable practices. An update is provided at Appendix 4.

Continuous training and development

- 6.12 A key aspect of the QAIP is the continuous training and development of the Internal Audit team. While the Internal Audit team comprise qualified auditors, the service is keen to ensure that knowledge and skills set remain up to date. Therefore resource for training activity is incorporated into the resourcing calculation when the annual audit plan is drafted.
- 6.13 Ongoing training takes place in largely three forms:
- 1) external training offered by external organisations (e.g. CIPFA and the Institute of Internal Auditors). A training budget is held that allows each auditors to attend at least one course per annum. The Internal Audit service has subscribed to the CIPFA Better Governance Forum for the 2022-23 year;
 - 2) Cross Council Assurance Service networking days. These take place approximately once every quarter and cover topical areas and best practice; and
 - 3) in-house training via induction, daily working with peers and audit management, guidance obtained through audit management reviews; and liaison and cross-working with the Investigations and Risk Management teams.

7. Head of Internal Audit Opinion for 2022-23

- 7.1 The PSIAS requires the HIA to provide an annual opinion that can be used by the organisation to inform its annual governance statement.
- 7.2 The PSIAS, and CIPFA's guidance on the '*Role of the Head of Internal Audit in Public Service Organisations*' require that the HIA's overall opinion is objective and supported by sufficient, reliable, relevant and useful information and evidence. The HIA opinion should also take into account the strategies, objectives and risks of the Council, expectations of senior management and stakeholders, and both Internal Audit work and other sources of assurance.
- 7.3 The following four ratings and definitions have been devised to assist with forming and articulating the HIA annual opinion:

No Assurance

There are fundamental weaknesses within the Council's systems of internal control, risk management and governance, which jeopardise the achievement of key objectives.

Limited Assurance

The adequacy and effectiveness of the overall arrangements for the Council's systems of internal control, risk management and governance are limited. There are a number of significant weaknesses that may put the achievement of key objectives at risk.

Moderate Assurance

The adequacy and effectiveness of the overall arrangements for the Council's systems of internal control, risk management and governance are adequate, with some improvement required.

Substantial Assurance

The overall arrangements for the Council's systems of internal control, risk management and governance are sound. Any improvement or enhancement recommended relates to best practice only.

7.4 The HIA annual opinion for 2022-23 is:

Moderate Assurance

The adequacy and effectiveness of the overall arrangements for the Council's systems of internal control, risk management and governance are adequate, with some improvement required.

- 7.5 In summary, it is the HIA's opinion that and overall rating of Moderate assurance is appropriate. Although some high risk rated recommendations were made in individual audit reviews, these were broadly isolated to specific systems or processes. None of the individual audit reviews had an overall classification of critical risk. This opinion is consistent with the previous year.

Basis of the Head of Internal Audit opinion

- 7.6 The HIA opinion is supported by the delivery of the 2022-23 audit plan, covering the period 1st April 2022 to 31st May 2023, which identified no critical concerns in respect of the Council's internal control, risk management or governance arrangements. Where weaknesses were identified during individual audits, these were not considered to be significant, in aggregate, to the Council's overall governance arrangements and system of internal control.
- 7.7 As detailed in section 3 above, a comprehensive approach was followed in drafting the 2022-23 audit plan to ensure that this was resident focussed, aligned to the Council's Principal Risk Report, and provided assurance regarding the key aspects of the Council's internal control framework. The effectiveness of the Council's risk management framework is regularly reviewed through benchmarking against other authorities, industry standards and best practice. This has resulted in continuous improvement to the Council's risk management framework.
- 7.8 Outcomes of internal audit activity are included at appendices 1-3. In addition to the outcomes of the 2022-23 audit plan, in reaching the HIA opinion, the following governance arrangements were also considered:
- The Council's risk awareness and risk culture has further matured in 2022-23. Risk deep dives have been presented to Committee. There was also a continued awareness of principal risks and a good level of implementation of actions designed to mitigate principal risks;
 - The immediate risk arising from the pandemic continued to reduce in 2022-23, as reflected in the Principal Risk Report. Internal Audit continued to include any new risks arising through individual reviews on the 2022-23 audit plan;

- There is a willingness on the part of management to proactively seek Internal Audit advice in relation to risk and control design outside of delivery of the audit plan. This has been evidenced by the large number of reviews the senior leadership and service management have requested outside of the 2022-23 audit plan;
- The HIA opinion is also informed by the wider sources of assurance as listed within the governance self-assessment which will support the annual governance statement.

7.9 In summary, the Head of Internal Audit is satisfied that the work undertaken by Internal Audit during 2022-23, as well as wider governance arrangements, has enabled an opinion to be formed on the Council's control framework, risk management and governance arrangements.

8. Finance Comments of the Executive Director Corporate Services

8.1 The Executive Director Corporate Services has been consulted and comments are incorporated within the body of the report.

9. Legal Comments of the Borough Solicitor

9.1 The Borough Solicitor has been consulted and has no comments.

10. Environmental implications

10.1 There are no known environmental implications arising from this report.

11. Appendices

Appendix 1 Internal Audit Update

Appendix 2 High priority recommendations

Appendix 3 Follow Up Outcomes

Appendix 4 External Quality Assessment (EQA) action plan

REPORT ENDS