

Title of Report	Internal Audit Annual Report 2021/22
For Consideration By	Audit Committee
Meeting Date	8 June 2022
Classification	Open
<u>Ward(s) Affected</u>	All
<u>Group Director</u>	Ian Williams, Group Director of Finance and Corporate Resources

1. Introduction

- 1.1 This report provides details of the performance of Internal Audit during 2021/22 and the areas of work undertaken, together with an opinion on the soundness of the control environment in place to minimise risk to the Council.
- 1.2 This report is presented for information and comment and is part of the Committee's role in overseeing corporate governance.

2. Recommendations

The Audit Committee is recommended to: -

- 2.1 **To comment upon and note this report of Internal Audit's performance and opinion of the Council's framework of governance, risk management and internal control.**
- 2.2 **Approve the updated Internal Audit Charter and Strategy.**

3. Reason(s) for decision

- 3.1 The Public Sector Internal Audit Standards (PSIAS) came into force in April 2013 and apply to all internal audit service providers. These standards were revised in 2017.
- 3.2 PSIAS require the Chief Audit Executive (or equivalent) to report functionally to a board and to deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

- 3.3 The Annual Report must incorporate: -
- the opinion
 - a summary of the work that supports the opinion
 - a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

3.4 This report fulfils this requirement.

4. Background

4.1 Annual Report

- (i) The annual report of the Internal Audit Service is provided in Appendices 1 - 7 and includes a summary of managers' implementation of agreed audit high and medium priority recommendations. In addition, the following are presented:
- Internal Audit progress against key performance indicators (Appendix 2)
 - Analysis of assurance levels arising from reviews carried out in 2021/22 (Appendix 3)
 - Comparison of assurances for key financial systems, comparing results over four years (Appendix 4)
 - Definitions of assurance levels (Appendix 5)
 - Internal Audit Charter (Appendix 6)
 - Internal Audit Strategy (Appendix 7)
- (ii) The Audit Annual Plan was formulated by: -
- Analysis of the corporate and directorate risk registers
 - Consultation with chief officers and senior managers to ensure that account is taken of any concerns they raise
 - New council initiatives, government initiatives and legislation
 - A review of past Internal Audit work
 - Strategic risks as identified in discussions with the Corporate Director of Finance and Resources
- (iii) This report provides details of the performance of the Council's Internal Audit Service and seeks to give reassurance that the service is being delivered in accordance with statutory responsibilities and is continually seeking to improve the standards of its service.
- (iv) During the 2021/22 financial year, in addition to the Covid-19 pandemic continuing to impact upon the ability of the Audit & Anti Fraud Service to carry out its work, including the completion of internal audit reviews as was the case in all London Boroughs, like all services in Hackney it had to contend with the criminal cyber attack. The service demonstrated its agility, creativity and resilience to continue to undertake much of its core work, whilst also being deployed to support key council services delivering the wide range of new business grants and support that had to be stepped up at pace with the necessary assurance requirements of these grants being met.

Inevitably, some work had to be deferred but has now restarted. Resources have focussed on reviews that provide evidence to support the Head of Internal Audit & Corporate Risk Management's annual assurance statement.

- (v) The loss of data and access to systems as a result of the cyber attack and the challenges this posed when undertaking audit reviews has understandably impacted upon the level of assurance that can be given under what are extraordinary circumstances. The Council moved to put in place alternative working practises to ensure essential services continued to be provided to our residents. It was recognised that the use of interim measures involved accepting a greater level of risk than under normal circumstances but these were unprecedented times and the risks needed to be accepted in order for the Council to deliver essential services. This was also recognised in the establishment of 'Gold' emergency arrangements in relation to cyber as well as the pandemic.
- (vi) Using the cumulative knowledge and experience from the audit review of the systems and controls in place over many years, including the results of previous audit work and the work undertaken to date, it is considered that overall, throughout the Council there remains an adequate internal control environment despite the challenges experienced. The roll-out of new systems to replace legacy systems, designed to take account of current service requirements, emerging risks and new working arrangements, will considerably enhance the internal control systems of the Council.

4.2 Internal Audit Charter

The Internal Audit Charter (Appendix 6) sets out the nature, role, responsibility, status and authority of internal auditing within the Council, and outlines the scope of internal audit work. To ensure that the Charter remains relevant and current, it is reviewed annually, the last review took place in May 2022.

4.3 Internal Audit Strategy

The Internal Audit Strategy (Appendix 7) is a high level document which outlines how the Internal Audit Service will be delivered to meet the requirements contained within the Internal Audit Charter.

4.4 Policy Context

The work of the Internal Audit Service complies with the Public Sector Internal Audit Standards. Internal Audit reviews consider all applicable policies of the Council.

Equality Impact Assessment

- 4.5 This report does not require an equality impact assessment, but where applicable equality issues and adherence to corporate policies would be considered in audit reviews.

Sustainability and climate change

- 4.6 Not applicable

Consultations

- 4.7 Consultation on the 2021/22 internal audit plan took place with senior management throughout the Council.

Risk assessment

- 4.8 The work of Internal Audit was based upon a risk assessment which covers all areas of the Council's activity and is continually changing to reflect new initiatives, risk areas and legislation. There was also continuous reassessment of risk as audits were undertaken, plus regular consultation with directors, chief officers and senior managers to ensure that account was taken of any concerns they raised during the year.

5. Comments of the Group Director of Finance and Corporate Resources.

- 5.1 There are no financial implications arising from this report as the costs of providing the audit service are included within the Council's base budgets.
- 5.2 An effective audit service is important in order to ensure that key internal controls are assessed, thereby aiding the prevention and detection of fraud and other occurrences that could otherwise result in budget pressures. It is noted that the results of internal audit work indicate that, overall, the Council's control framework is adequate, despite the challenges experienced throughout the pandemic and as a result of the cyber attack. In addition, as stated at paragraph 4.3 the roll-out of new systems to replace legacy systems, designed to take account of current service requirements, emerging risks and new working arrangements, will considerably enhance the internal control systems of the Council.

6. Comments of the Director of Legal, Democratic and Electoral Services

- 6.1 The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for management of risk. An adequate system of internal audit is inherent. This report demonstrates how the Council is fulfilling its obligations in this regard.

6.2 The Audit Committee is asked to note the report on Internal Audit's performance and opinion. There are no immediate legal implications arising from the report.

Appendices

Appendix 1 - Internal Audit Service Annual Report 2021/22

Appendix 2 - Internal Audit Performance in 2021/22

Appendix 3 - Detailed analysis of internal audit reviews 2021/22

Appendix 4 - Key Financial Systems – analysis of audit findings

Appendix 5 - Definitions of Assurance Levels

Appendix 6 - Internal Audit Charter

Appendix 7 - Internal Audit Strategy 2020-2025

Background documents

Public Sector Internal Audit Standards 2017 (PSIAS)

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