



Audit Standards and Advisory Committee

4th December 2024

Report from the Corporate Director of Finance and Resources

**Lead Member - Deputy Leader and Cabinet Member for Finance and Resources
(Councillor Mili Patel)**

Internal Audit Interim Report – 2024-25

Wards Affected:	All
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
List of Appendices:	Four Appendix 1: Internal Audit Activity Update Appendix 2: Summary of Audits Completed Appendix 3: Summary of Follow-up Activity Appendix 4: Overdue Actions
Background Papers:	None
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1.0 Executive Summary

1.1 This report outlines the work undertaken by Internal Audit as at end of October 2024.

1.2 The report is intended to support the Corporate Management Team (CMT) and the Audit and Standards Advisory Committee in obtaining assurance that the Council has a sound framework of governance, risk management and internal control. It does this by summarising Internal Audit activity, updating on the performance of the function, highlighting areas where high priority recommendations have been made and commenting on the level of implementation of audit recommendations by management.

2.0 Recommendations

2.1 The Committee is asked to note the report.

3.0 Detail

3.1 Contribution to Borough Plan Priorities & Strategic Context

3.1.1 The role and mission of the Internal Audit function is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit helps the Council to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of the governance, risk management and control processes in place.

3.1.2 The mission of Internal Audit is achieved through providing a combination of risk-based assurance and consulting activities. The assurance suite of work involves assessing how well the systems and processes are designed and operating in order to effectively mitigate risk, while consulting activities aid with the improvement in systems and processes where necessary.

3.1.3 The response of the Council to the activity of Internal Audit should lead to the strengthening of governance arrangements and the control environment, and therefore, contribute to the achievement of strategic objectives.

3.2 Background

3.2.1 As reported in March 2024, the new Global Internal Audit Standards suggest that if an organisation's environment is dynamic, the Internal Audit plan may need to be updated as frequently as every six months, quarterly or even monthly to ensure the work of Internal Audit is focussed on the highest risk areas. In view of this new guidance, and in-line with the objectives set-out within our Internal Audit Strategy, we adopted a new approach and method to audit planning for 2024-25 that moves away from the traditional '*annual plan*' approach.

3.2.2 The Internal Audit plan for 2024-2025 is therefore less rigid and more flexible and agile than previously, while still appreciating there remains a need to provide assurance over areas of inherent risk, including core systems and processes that are key foundations to the Council's governance and control framework. To this end, the plan for 2024-25, as approved by CMT and the Audit and Standards Advisory Committee in March 2024, moved away from the more traditional 'annual plan' approach and comprised of the following four sections:

- a) **Core Assurance Plan** – the work that will be undertaken in-year to provide assurance over the Council's core/key systems and controls. A three-year cyclical plan of core assurance activity was set out and agreed in March 2024.

- b) **Agile, Risk-based Plan** – potential audit areas that have been identified via a number of methods, including a rolling-risk assessment, assurance mapping, and consultation with senior management. This section of the plan was designed to be flexible to enable Internal Audit to be responsive to emerging risks, issue and changing priorities. It is therefore not a rigid plan and the Head of Internal Audit reviews, updates and re-prioritises the list as appropriate.
- c) **Consultancy and Advice** – this section of the plan retained a portion of time to be reactive and responsive to requests from senior management for consultancy and advisory services.
- d) **Follow-up Activity** – the work to be undertaken by Internal Audit to follow-up and track agreed actions through to implementation, to ensure improvements to the Council's governance, risk management and control arrangements are made.

3.3 Delivery of the 2024-25 Internal Audit Plan

3.3.1 The Internal Audit team has delivered a broad range of work this year and has continued to progress several audits since the last update provided in September. Key highlights this year are as follows:

- **Ten** reviews and advisory pieces of work have been completed.
- **Two** high risk/high assurance need audits are at draft report stage, awaiting management responses.
- **Ten** high risk/high assurance need audits are in progress, with fieldwork underway.
- **Six** assurance reviews are in planning, with fieldwork due to commence in Quarter 4.
- **Seven** follow-up reviews have been concluded, with a further fourteen in progress.

3.3.2 As detailed in *Appendix 1*, the Internal Audit team has made good progress towards delivery of the Core Assurance plan, with fieldwork for several audits due to commence in the remainder of Quarters 3 and Quarter 4. It is anticipated that at least 90% of this plan will be completed by 31 March 2024 (draft report stage), which will enable the Head of Internal Audit to provide an informed and evidence-based opinion as to the effectiveness of the Council's governance, risk management and control framework.

3.3.3 The Agile Risk-Based plan, also seen at *Appendix 1*, lists the potential high risk and high assurance audit areas that will be prioritised for delivery in the remainder of the year. This list is fluid and subject to change in response to new/emerging risks and/or a change in priorities. This list does not purport to be a rigid plan or a list of audits that will be delivered, as the resources required to deliver all this work significantly exceeds the resources available. The plan is therefore included to provide assurance in respect of how the work of Internal Audit will be determined and directed.

3.3.4 A summary of the risks/issues identified in audits completed is attached at *Appendix 2*. Comprehensive management responses have been provided for each action and Internal Audit will undertake follow-up reviews upon the passing of implementation dates.

School Reviews

3.3.5 A programme of school audits is undertaken to provide assurance over the key governance arrangements and financial management controls in place within individual schools. As of 30 October 2024 two reviews are in progress. Internal Audit are also about to issue a School Key Financial Controls Self-Assessment to identify schools that may need further assurance but also to provide schools with an understanding of the key financial controls that should be in place.

Advisory Work

3.3.6 Internal Audit continue to carryout consultancy and advisory work where required or requested. So far this year, various pieces of advisory work have been undertaken, including:

- Parks/Open Spaces - Invoicing
- Delays in Oracle Cloud notifications to Accounts Payable
- Triple Value Impact – Advice note

Further details can be seen in *Appendix 1*.

3.3.7 Internal Audit has also continued to carry out quarterly verification work for the Supporting Families Programme grant.

3.4 Summary of Risks/Issues Identified

3.4.1 For each review undertaken, where gaps or weaknesses in the design and operation of controls are highlighted, or where opportunities for the further improvement/optimisation of controls are identified, recommendations are raised and agreed with management.

3.4.2 Findings and issues raised by Internal Audit (and therefore the resulting recommendations) are graded in terms of the associated level of risk. An indication of the level of assurance and confidence provided from an audit review is therefore gained by examining the number and level of issues identified.

3.4.3 The following definitions are used to inform these ratings:

Critical	A finding that could have a: critical impact on operational performance; critical monetary or financial statement impact; critical breach in laws and regulations that could result in material fines or consequences; and/or a critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: significant impact on operational performance; significant monetary or financial statement impact; significant breach in laws and regulations resulting in significant fines and consequences; and/or a significant impact on the reputation or brand of the organisation.
Medium	A finding that could have a: moderate impact on operational performance; moderate monetary or financial statement impact; moderate breach in laws and regulations resulting in fines and consequences; and/or a moderate impact on the reputation or brand of the organisation.
Low	A finding that could have a: minor impact on the organisation's operational performance; Minor monetary or financial statement impact; minor breach in laws and regulations with limited consequences; and/or a minor impact on the reputation of the organisation.

3.4.4 For work so far undertaken as part of the 2024-25 plan, Internal Audit has raised a total of **43 issues**. The below table summarises these against the four risk categories:

Summary of risk issues raised:	1 April to 31 October 2024	%	2023-24	%	2022-23	%	2021-22	%
Total issues raised:	43		100		108		72	
Critical risk	0	0%	0	0%	0	0%	0	0%
High risk	13	30%	28	28%	17	16%	10	14%
Medium risk	25	58%	54	54%	70	65%	49	68%
Low risk	5	12%	18	18%	21	19%	13	18%

3.4.5 Previous year's figures have been provided for comparison purposes although these are for whole years so are not a direct comparison. Whilst an increase or decrease in the number of risk issues raised per category may indicate an improvement or deterioration in the Council's internal control environment; there may also be several other factors behind this, including variations between the number and/or type of audit reviews that were completed in each year.

3.4.6 In September 2024 the Audit and Standards Advisory Committee received an internal audit progress report summarising completion of work against the agreed plan. As part of this update, details of any critical, high or medium risk

issues raised was provided, alongside the responses and actions agreed by management/auditees. For audits completed since then, a summary of issues identified (high and medium risk) and agreed with management can be seen at *Appendix 2*.

Assurance Ratings

- 3.4.7 In-line with the new Global Internal Audit Standards relating to assurance conclusions - “*assurance engagement conclusions must include the internal auditors’ judgement regarding the effectiveness of the governance, risk management, and/or control processes of the activity under review*”, the Internal Audit function re-introduced assurance ratings for all assurance-related engagements relating to the 2024-2025 plan.
- 3.4.8 Furthermore, the standards also state that ‘*the chief audit executive’s methodologies for the internal audit function may provide a rating scale indicating whether reasonable assurance exists regarding the effectiveness of controls*. The following definitions are used to inform these ratings:

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.
Moderate Assurance	An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are <i>medium</i> priority recommendations indicating weaknesses, but these do not undermine the system’s overall integrity. Any <i>critical</i> recommendation will prevent this assessment, and any <i>high</i> recommendations would need to be mitigated by significant strengths elsewhere.
Limited Assurance	There are several 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 <i>high</i> recommendations indicating significant failings. Any <i>high</i> recommendations would need to be mitigated by significant strengths elsewhere.
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.

- 3.4.9 Assurance Ratings shown within *Appendix 1* for relevant audit reviews.

3.5 Follow-up Outcomes and Activity

- 3.5.1 Agreed recommendations and actions emanating from all planned audit work is subject to follow-up to ensure that agreed actions have been implemented.
- 3.5.2 Between 1 April and 31 October 2024, seven follow-up reviews have been completed relating to work carried out in 2023-24, which sought to evidence

that 31 actions had been implemented as agreed. Outcomes are summarised in the table below. A further 14 follow up reviews are currently in progress.

Implementation Status	High Risk	Medium Risk	Low Risk	Total
Actions Followed-up:	6	19	6	31
Implemented:	3 (50%)	11 (58%)	4 (66%)	18 (58%)
Partially Implemented:	0	1 (53%)	1 (17%)	2 (6%)
Not Implemented:	2 (33%)	7 (37%)	1 (17%)	10 (32%)
<i>No longer relevant/superseded:</i>	1	0	0	1

3.5.3 As shown above, 58% of agreed actions have been implemented within their original due date. 6% were partially implemented and 32% were not implemented.

3.5.4 Further details relating to the follow-up activity undertaken in 2024-25 can be seen at *Appendix 3*. It should be noted that follow-up outcomes included in this appendix are reported as at the time of concluding the follow-up review. As a result, owing to the time that may have elapsed since, the rate of implementation may have since changed. Internal Audit continue to review implementation of recommendations with Management, and in line with usual practice, will report any instances of persistent non-implementation of recommendations to the Committee.

3.6 Monitoring of Outstanding Audit Actions

3.6.1 Where actions are found to remain partially or not implemented at follow-up, revised target dates are agreed with management. Outstanding actions are then monitored and reported via departmental 'action trackers', which are reported to Departmental Management Teams on a quarterly basis. However, the responsibility for notifying Internal Audit that an action has been implemented, and providing evidence to substantiate this, lays firmly with management and the action owner.

3.6.2 As of 31 October 2024, a total of 77 actions have been implemented and closed. As shown in the table below, half of these were implemented within their *original* target dates; however, a third of the actions were not implemented until they were reported on the *overdue* list.

	Closed by original due date	Closed by revised date	Closed after reported as 'overdue'	Total
High Risk	7 47%	2 13%	6 40%	15
Medium Risk	27 53%	7 14%	17 33%	51
Low Risk	6 55%	0 0%	5 45%	11
Total	40 52%	9 12%	28 36%	77

3.6.3 A deterioration this year, compared to last year, has been the time taken for management to respond to the follow up process. Often it requires many reminders to elicit a response. The average time taken this year to complete a follow up review has been over three months. In the worst case, a follow up review, still in progress, took 11 months before an action status response was received.

3.6.4 Delays in responding to follow up requests can of course be for many reasons. We fully accept that there are likely to be higher priorities for colleagues. The trend though, particularly in some Directorates, is to delay responding until reminded on several occasions. In respect of the follow up reviews that are currently in progress, in 50% of the cases, the initial request for progress on the actions went out over six months ago. Responses have now been received on all of them but in every case, responses have lacked sufficient evidence to support the action implementation being claimed. This then leads to further correspondence and delays before the true picture can be established.

3.7 Overdue actions

3.7.1 Where actions are still not implemented within their revised target dates, or where management persistently does not engage in the follow-up process, these actions are flagged as 'overdue', and are escalated to CMT.

3.7.2 There are currently 51 overdue actions that meet these criteria:

Number of actions overdue (past revised target dates)	51	
Critical risk	0	0%
High risk	16	31%
Medium risk	35	69%

3.7.3 The number average number of elapsed days since the original due date is 391 days. Full Details of each of the High/Medium overdue actions can be found in *Appendix 4*.

3.7.4 It should be noted that this is a live and ongoing process, and therefore the position of overdue actions changes on a daily/weekly basis. Internal Audit continues to liaise with management to close all overdue actions. Any issues regarding the persistent non-implementation of actions are raised with the Audit and Standards Advisory Committee as appropriate.

3.8 Quality Assurance and Improvement Programme

3.8.1 The PSIAS require the HIA to develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of internal audit activity. Internal Audit has therefore 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.

External Assessments

3.8.2 The PSIAS require an external quality assessment (EQA) be undertaken at least every five years. As reported to the Audit and Standards Advisory Committee in February 2023, a review of Internal Audit's performance at the London Borough of Brent was undertaken in January 2023.

3.8.3 The assessment found that the Internal Audit Service **Generally Conforms** with the PSIAS, which is the highest available level of assessment for local authorities. Overall, the assessors commented that Internal Audit is a well led, professional and respected service that adds value and provides evidence based, reliable assurance over the Council's governance, risk management and internal controls. The next EQA will be due in 2028.

Internal Assessments

3.8.4 In accordance with the PSIAS, internal quality and performance assessments are undertaken through both on-going and periodic reviews. 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 1:2:1s between audit management and auditors to review and monitor performance, and the review and approval of all outputs by the Audit Manager and HIA.

3.8.5 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 the quarterly progress

reports presented to the Audit and Standards Advisory Committee, which summarise progress against the annual plan and key outcomes of audit activity. Furthermore, an annual assessment is undertaken in drafting the annual audit plan, which is aligned to the Council's Strategic Risk Register to ensure that the work of internal audit centres around the key risks that threaten the achievement of corporate objectives.

3.8.6 Other periodic assessments include (but are not limited to):

- annual self-assessments to ensure conformance with the PSIAS. This is due to take place during Q3/4 with results to be included in the next update.
- regular feedback from senior management and Council Management Team.
- benchmarking with other London Borough internal audit services, via the Cross Council Assurance Service and London Audit Group.

Key Performance Indicators

3.8.7 To complement and inform the ongoing and periodic assessments detailed above, Key Performance Indicators (KPIs) have been defined to measure the performance of the internal audit service. Achievement scores against each of these KPIs for 2024-25 are set out in the table below:

KPI	Details	Achievement (RAG)	Comments
Planning & Coverage			
KPI 1	% of Core Assurance Plan completed across the 3-year cycle (<i>target 100%</i>)	● On Target	On target to complete 100% of 2024/25 Core Plan.
KPI 2	% of strategic risks/ key inherent risks covered across 3-year cycle (<i>target 100%</i>)	● On Target	On target to cover 100% of 2024/25 planned risk coverage.
Delivery			
KPI 3	Timeliness in raising issues with Management - end of fieldwork to draft report <10 working days.	● On Target	On target to end of fieldwork to draft report <10 working days.
KPI 4	% of acceptance to audit recommendations (<i>target 100%</i>)	● On Target	100% acceptance of audit recommendations.

KPI	Details	Achievement (RAG)	Comments
KPI 5	Number of requests for consultancy/advisory services	● On Target	Three.
Follow Up			
KPI 6	% of Critical and High-risk actions followed-up within 1 month of due date (<i>target 100%</i>)	● On Target	100% of recommendations followed up within 12 months of final report.
KPI 7	% of audit actions implemented within original timescales (<i>target 75%</i>)	● Off Target	52% audit actions implemented within original timescales.
Quality			
KPI 8	% of audit satisfaction surveys rated as 'good or better' (<i>target 100%</i>)	● Off Target	Three forms returned – 67% of responses rated as good or better.
KPI 9	Conformance to the Public Sector Internal Audit Standards	● On Target	Self-Assessment due Q3/4 2024-5.

4.0 Stakeholder and ward member consultation and engagement

4.1 None.

5.0 Financial Considerations

5.1 The report is for noting and so there are no direct financial implications.

6.0 Legal Considerations

6.1 All Local Authorities are required to make proper provision for Internal Audit in line with the 1972 Local Government Act and Accounts and Audit Regulations 2011 (as amended). The Public Sector Internal Audit Standards 2017, also require proper planning of audit work.

7.0 Equity, Diversity & Inclusion (EDI) Considerations

7.1 None.

8.0 Climate Change and Environmental Considerations

8.1 None.

9.0 Communication Considerations

9.1 None.

Report sign off:

Minesh Patel

Corporate Director of Finance and Resources