

General Purposes & Audit Committee Agenda



To: Councillor Karen Jewitt (Chair)
Councillor Stephen Mann (Vice-Chair)
Councillors Nina Degrads, Paul Scott, Chris Clark, Joy Prince,
Stuart Millson, Tim Pollard, Jan Buttinger and Steve Hollands

Reserve Members: Pat Clouder, Bernadette Khan, Sean Fitzsimons,
Clive Fraser, Andrew Pelling, Jason Cummings, Badsha Quadir, Ian Parker
and Simon Hoar

A meeting of the **General Purposes & Audit Committee** which you are hereby summoned to attend, will be held on **Thursday, 8 July 2021** at **6.30 pm** in **Council Chamber, Town Hall, Katharine Street, Croydon, CR0 1NX.**

JACQUELINE HARRIS-BAKER
Council Solicitor and Monitoring Officer
London Borough of Croydon
Bernard Weatherill House
8 Mint Walk, Croydon CR0 1EA

Michelle Ossei-Gerning
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www.croydon.gov.uk/meetings
Wednesday, 30 June 2021

Residents are able to attend this meeting in person, however we recommend that you watch the meeting remotely via the following link:

<https://webcasting.croydon.gov.uk/croydon/meetings/12675>

If you would like to attend in person please note that spaces are extremely limited and are allocated on a first come first served basis. If you would like to attend in person please email democratic.services@croydon.gov.uk by 5pm the working day prior to the meeting to register your interest.

If you would like to record the meeting, we ask that you read the guidance on the recording of public meetings here before attending.

The agenda papers for all Council meetings are available on the Council website www.croydon.gov.uk/meetings

If you require any assistance, please contact Michelle Ossei-Gerning
020 8726 6000 x84246 as detailed above

AGENDA – PART A

1. Apologies for Absence

To receive any apologies for absence from any members of the Committee.

2. Minutes of the Previous Meeting

To approve the minutes of the meeting held on 24 February 2021 as an accurate record.

[To Follow]

3. Disclosure of Interests

In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality to the value of which exceeds £50 or multiple gifts and/or instances of hospitality with a cumulative value of £50 or more when received from a single donor within a rolling twelve month period. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Democratic Services representative at the start of the meeting. The Chair will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests.

4. Urgent Business (if any)

To receive notice of any business not on the agenda which in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

5. Head of Internal Audit Report (Pages 5 - 42)

This report details the work completed by Internal Audit in 2020/21 and the overall level of assurance for the Council's internal control environment to support the Annual Governance Statement (AGS).

6. The Redmond Review of Local Audit (Pages 43 - 60)

This report details the conclusions and recommendations of the Redmond review and the responses from MHCLG on behalf of the Government.

7. Brick by Brick Report

An update on the Fairfield Halls investigation.

[To Follow]

8. Audit Findings Report

An update on the Audit Findings for 2019/20.

[To Follow]

9. Exclusion of Public and Press

The following motion is to be moved and seconded where it is proposed to exclude the press and public from the remainder of a meeting:

“That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended.”

PART B

REPORT TO:	GENERAL PURPOSES & AUDIT COMMITTEE 8 July 2021
SUBJECT:	Head of Internal Audit Annual Report 2020/21
LEAD OFFICER:	Simon Maddocks, Head of Internal Audit
CABINET MEMBER	N/A
WARDS:	ALL
CORPORATE PRIORITY/POLICY	
<p>Internal Audit’s work helps the Council to improve its corporate capacity through sound and robust governance structures, financial management and risk management within the organisation. Strengthening corporate capacity is critical in improving the Council’s ability to deliver services helping the Council achieve its vision and aims for the community as a whole.</p>	
FINANCIAL SUMMARY:	
<p>The Internal Audit contract for 2020/21 was a fixed price of £390K and the appropriate provision was made within the budget for 2020/21.</p>	
FORWARD PLAN KEY DECISION REFERENCE NO.:	

For general release

1.	RECOMMENDATIONS
1.1	The Committee is asked to note the Head of Internal Audit Report 2020/21 (Appendix 1) and the overall Limited level of assurance of the Council’s systems of internal control.

2. EXECUTIVE SUMMARY

- 2.1 This report details the work completed by Internal Audit in 2020/21 and the overall level of assurance for the Council's internal control environment to support the Annual Governance Statement (AGS). The AGS will be included on the agenda for a later meeting of this committee and will be published on the Council's website in due course alongside the final accounts.
- 2.2 From the Internal Audit work undertaken in 2020/21, it is the Head of Internal Audit's opinion that Internal Audit can provide only **Limited Assurance** in relation to the system of internal control, and that the internal controls within financial and non-financial systems operating throughout the year were unsatisfactory in some cases.
- 2.3 Control weaknesses have been identified and highlighted in relation to:
- Contract letting, monitoring and management across the organisation.
 - Privacy notices relating to the collection of personal data that were missing or were no longer fit for purpose.
 - Schools in deficit.
 - General compliance issues in basic areas of governance and control.
 - Temporary accommodation, including arrangements for repairs and maintenance.
- 2.4 This report covers a period of unprecedented change within the organisation brought on by (a) the COVID pandemic which has required a massive change to working practices as well as additional support to the community; and (b) the changes flowing from the Report in the Public Interest issued by the Council's external auditor and the complete change at the top of the organisation, amongst both politicians and officers.
- 2.5 There has been a good start made on the job of changing the organisation's culture, but this will not be an overnight task and will take some time to embed.

3. DETAIL

- 3.1 The Public Sector Internal Audit Standards require the Head of Internal Audit to prepare an independent annual written report to members that includes:
- an opinion on the overall effectiveness of the organisation's framework for governance, risk management and control;
 - disclosure of any qualifications on that opinion; and
 - any issues the Head of Internal Audit judges relevant to the preparation of the Annual Governance Statement.
- 3.2 Appendix 1 details the annual report for the period 2020/21. From the work undertaken, the Head of Internal Audit is giving a **Limited Assurance** in that the Council's framework for governance, risk management and control does not accord with proper practice in several cases.

3.3 The Limited level of assurance reflects that **56%** of individual audits received either No or Limited assurance levels. This is a slightly deterioration from the previous year, however, it should also be noted that there has been an improvement in results of school audits this year which has been matched by a further deterioration in corporate audits. It should also be noted, that at the time of writing there are still a number reports in draft. There will be an update on these outstanding reports at the next meeting of this committee. The most significant control weaknesses identified are set out in paragraph 3.8.

3.4 The assurance levels of internal audits issued since the last annual report can be broken down as follows:

	Full	Substantial	Limited	No	Total
Key Financial Systems	12% (1)	13% (1)	75% (6)	0% (0)	8
ICT Systems	25% (1)	50% (2)	25% (1)	0% (0)	4
Operational and Departmental Systems	3% (1)	27% (8)	57% (17)	13% (4)	30
Schools	0% (0)	77% (10)	23% (3)	0% (0)	13
Total	6% (3)	38% (21)	49% (27)	7% (4)	55

3.5 Internal audit has identified issues and risks and service managers have identified actions to mitigate those risks. The Council now needs to ensure that the action is taken to implement audit recommendations particularly in relation to priority one issues. The actions to address the most significant issues are set out in paragraph 3.8 below.

Implementation of Audit recommendations

3.6 The Council has set targets for the implementation of audit recommendations. Implementation is assessed at the time of follow-up audits. The targets are 80% for all priority 2 & 3 recommendations and 90% for priority 1 recommendations. The table below shows achievement against these targets for the follow-up audits carried out to date.

Implementation of agreed recommendations

Performance Objective	Target	Performance 2016/17 (to date*)	Performance 2017/18 (to date*)	Performance 2018/19 (to date*)	Performance 2019/20 (to date*)	Performance 2020/21 (to date*)
Percentage of priority one recommendations implemented at the time of the follow up audit	90%	98%	100%	92%	87%	100%
Percentage of all recommendations implemented at the time of the follow up audit	80%	94%	90%	87%	91%	79%

* Audits are still being followed up for 2016/17, 2017/18, 2018/19, 2019/20 and 2020/21 and therefore the percentage is likely to change.

3.7 Internal Audit continues to work with departments to help improve implementation timescales. This includes reports to all Departmental Management Teams highlighting where recommendations are not being implemented and agreeing the way forward.

Significant Control Weaknesses

- 3.8 Internal Audit is required to form an opinion on the quality of the framework for governance, risk management and control, which includes consideration of any significant risk or governance issues and control failures which arise. During the financial year 2020/21, the following key issues were identified. All 5 of these items have been carried forward to the Annual Governance Statement (AGS) and responses sought from relevant management. These are shown here as well as within Appendix 1 of the AGS along with other areas of risk.

Audit Issue	Management Response
<p>Internal audit work during the year again identified a number of issues with contract letting, monitoring and management across the organisation.</p>	<ul style="list-style-type: none"> • Embed the practice of using the electronic scoring of tenders to eliminate the risk of manual / human error of using spreadsheets. • Deliver data retention workstream throughout 2021/22 which includes contract storage and general retention of contract information. Explore digital solution of the contracts register/pipeline. • Implement the Contract Improvement Plan throughout 2021/22 <ul style="list-style-type: none"> ○ Embed new governance; ○ Tender & Contract Regulations review; ○ Provider payment process review; ○ Commissioning pipeline and contract register compliance; ○ Embed refreshed contract management framework; and ○ Contract budget control.
<p>Internal audit continues to identify a number of instances where privacy notices relating to the collection of personal data were missing or were no longer fit for purpose.</p>	<p>We have provided support to service areas in relation to updating or developing new privacy notices so that the council is compliant with GDPR requirements.</p> <p>We have reviewed the below privacy notices between August 2020 to March 2021</p> <ul style="list-style-type: none"> • Access Croydon • My Account • Corporate privacy notice • Contact Centre privacy notice • Housing Services privacy notices <p>Actions from the last audit report 2019/2020 completed</p> <ul style="list-style-type: none"> • Housing services privacy notice – amendment made to the equalities section as required

	<p>In Addition, services are also working with Information Management to create new privacy notices for data processing, there has been the addition of two privacy notices recently:</p> <ul style="list-style-type: none"> • Food and Safety (Trading Standards) • Direct Care (CYC2 Adult Social Services and health) <p>During 21/22 we will promote the importance of keeping the privacy notices up to date via our intranet.</p>
<p>The number of Council maintained schools moving into a financial deficit leading to default and arrears continues to increase.</p>	<p>We are undertaking regular monitoring of the schools in deficit, through the engagement of a School Resource Management Advisor (SRMA) and in regular meetings with the school leadership team and Chair of Governors (COG).</p> <p>We are also keeping an oversight of any schools where the financial situation is moving towards a deficit where we can take preventative actions.</p>
<p>Internal audit continues to identify general compliance issues in basic areas of governance and control.</p>	<p>An approach to this has been agreed upon by ELT and will be developed and implemented over coming weeks.</p>
<p>Internal audits have identified issues in the area of temporary accommodation, including arrangements for repairs and maintenance.</p>	<p>All Council owned property including Emergency Accommodation /Temporary Accommodation will receive a repairs service in line with our landlord obligations. The Interim Executive Director for Housing will look at this issue as part of the process of unifying the housing and repair functions. Croydon Affordable Homes (CAH) will also be part of the unified housing team.</p>

3.9 Actions have been agreed to address these weaknesses and internal audit will be involved in further audit work in these areas.

3.10 In addition, to raise the profile of issues raised by internal audit and to address them earlier:

- All action plans to address individual audit findings are now signed off by the relevant Executive Director who will be responsible for ensuring implementation.
- Internal audit is attend Departmental Management Team meetings to discuss issues being reported to members of GPAC.
- Internal audit is also attending Executive Leadership Team meetings to discuss GPAC audit update reports and the issues that they identify.

4. CONSULTATION

- 4.1 The outcome of all audit work is discussed and agreed with the lead service managers. Departmental Leadership Teams receive reports from internal audit and consider progress on audit recommendations.

5. FINANCIAL AND RISK CONSIDERATIONS

- 5.1 The fixed price for the Internal Audit Contract was £390K for 2020/21 and there was adequate provision within the budget. There are no additional financial considerations relating to this report.
- 5.2 Internal Audit's planning methodology is based on risk assessments that include using the Council risk register processes and ensure the integration with the risk management framework.
- 5.3 The financial constraints that the council is experiencing and the consequent savings that need to be achieved, will continue to make it challenging to maintain a robust system of internal control. Internal audit will need to maintain some flexibility in its work plan to accommodate new or increasing areas of risk.

(Approved by: Geetha Blood, Interim Head of Finance Place and Resources)

6. LEGAL CONSIDERATIONS

- 6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the Council should take steps to improve the Assurance level within the Council.
- 6.2 There are various obligations upon the Council regarding ensuring that its business is conducted in accordance with the law and proper standards. This includes the duty (under the Local Government Act 1999) to make arrangements to secure continuous improvement, to have an Annual Government Statement (Account and Audit Regulations 2015) and to undertake a review of the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards and guidance. The Committee should note that the Council is under a duty (s3(1) Local Government Act 1999) to obtain Best Value and make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 6.3 Further the Council's Financial Regulations, as part of the Constitution, require the preparation of an annual Head of Audit Report and an Annual Governance Statement.
- 6.4 It is noted that the terms of reference of the General Purposes Audit Committee enables it to consider the annual report of the Head of Internal Audit and make

recommendations as appropriate to Cabinet and/or Full Council..

- 9.3 In considering the recommendation in this report the Committee should have regard to the Council's overall governance and financial position. It should be noted that Croydon Council's external auditors have published on 23 October 2020 a Report in the Public Interest which identifies governance weaknesses. Further, that the Council accepted the findings of a rapid review carried out on behalf of the Ministry of Housing, Communities and Local Government (MHCLG). This resulted in Croydon's Improvement and Assurance Panel, the government-appointed panel which provide external advice, challenge and expertise to the council, along with assurance to the Secretary of State as the council continues to deliver its renewal plans. They will measure the council's progress against agreed milestones and report to MHCLG on a quarterly basis. This Head of Internal Audit Report should also be carefully considered. In particular that there is a LIMITED level of assurance provided regarding the systems of internal control.

(Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance and Deputy Monitoring Officer.)

7. HUMAN RESOURCES IMPACT

- 7.1 There are no immediate human resource considerations arising from this report for LBC employees or staff.

(Approved by: Gillian Bevan, Head of HR, Resources)

8. CUSTOMER FOCUS, EQUALITIES, ENVIRONMENTAL, HUMAN RIGHTS & FREEDOM OF INFORMATION IMPACTS

- 8.1 When internal Audit is developing the Annual Audit Plan or individual audit programmes the impacts of the issues above are considered depending on the nature of the area of service being reviewed. Issues relating to these impacts would be reflected in the audit reports and recommendations.

9. DATA PROTECTION IMPLICATIONS

9.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

No.

- 9.2 There are no immediate data protection issues arising from this report.

CONTACT OFFICER: Simon Maddocks, Head of Internal Audit

BACKGROUND DOCUMENTS: Individual finalised internal audit reports are posted on the council's website.
[Internal audit reports](#)

London Borough of Croydon Internal Audit Annual Report for the year ended 31 March 2021

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Please refer to the Statement of Responsibility on the last page of this report for further information about responsibilities, limitations and confidentiality.

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1. Introduction

The purpose of this report is to contribute to the Head of Internal Audit annual reporting requirements set out in the UK Public Sector Internal Audit Standards (PSIAS). The standards advise that the report must:

- a) include an opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control;
- b) disclose any qualifications to that opinion, together with the reasons for the qualification;
- c) present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
- e) compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets, and
- f) comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

Head of Internal Audit Opinion on the Effectiveness of Internal Control

This opinion statement is provided for the use of London Borough of Croydon (Council) in support of its Annual Governance Statement 2021 that is to be published with the statement of accounts for the year ended 31 March 2021.

Scope of Responsibility

The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. Effectiveness of the system is also conveyed by executive managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in the annual audit letter and other reports. In this context it should be noted that the external auditors on 23 October 2020 issued a Report in the Public Interest highlighted 'governance failings' and 'corporate blindness'.

Head of Internal Audit Annual Opinion Statement

The Head of Internal Audit Annual Opinion (Opinion) is derived from work carried out by Internal Audit during the year as part of the agreed internal audit plan for 2020/21, including our assessment of the Council's corporate governance and risk management processes and information technology governance.

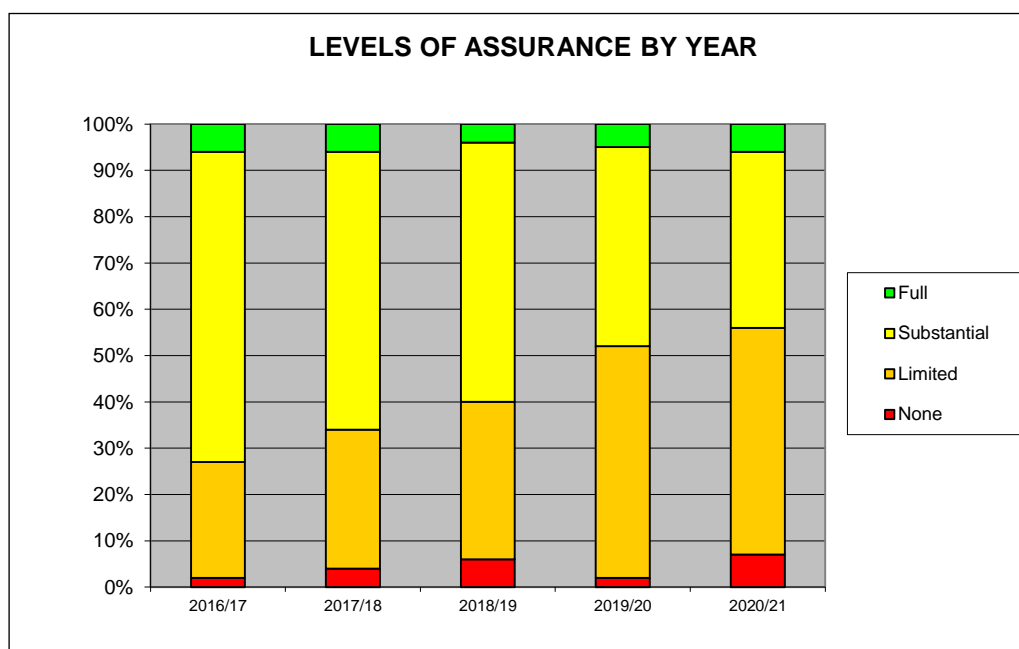
The internal audit plan for 2020/21 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

Basis of Assurance

We have conducted our audits both in accordance with the mandatory standards and good practice contained within PSIAS and additionally from our Internal Audit's own internal quality assurance systems.

Our Opinion is limited to the work carried out by Internal Audit during the year on the effectiveness of the management of those principal risks, identified within the organisations Assurance Framework, that are covered by Internal Audit's programme. Where principal risks are identified within the organisation's framework that do not fall under Internal Audit's coverage or that are not included in Internal Audit's coverage, we are satisfied that an Assurance Framework is in place..

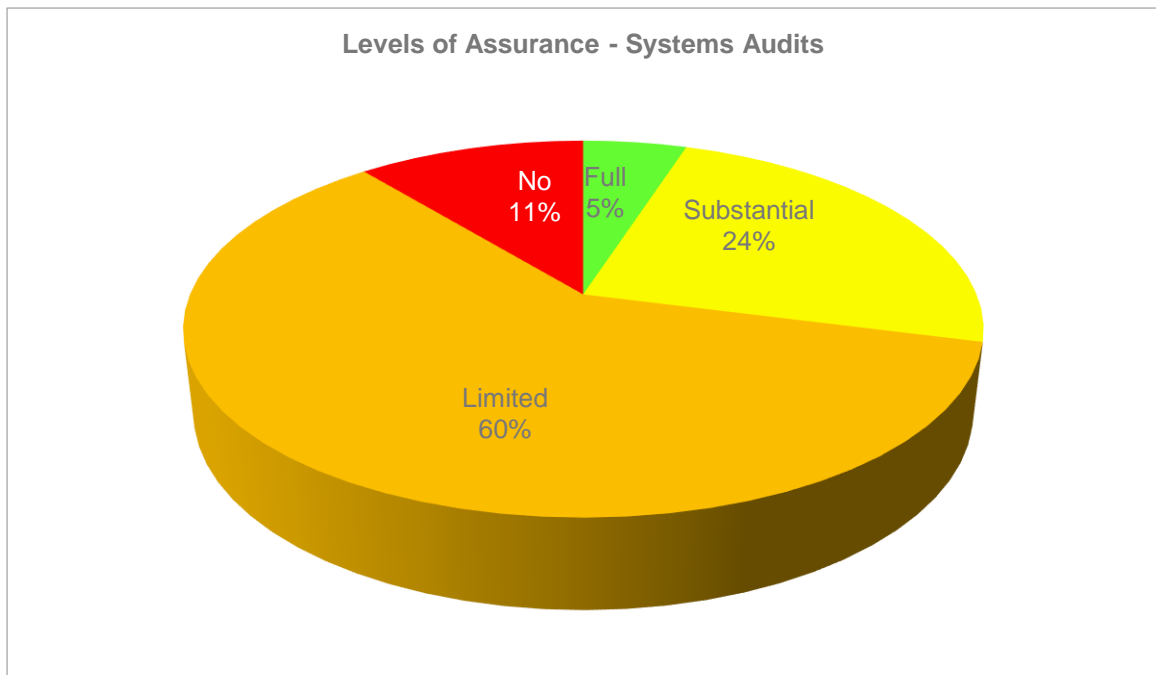
Graph 1 – Assurance Levels



	2016/17	2017/18	2018/19	2019/20	2020/21
Full Assurance	6%	6%	4%	5%	6%
Substantial Assurance	67%	60%	56%	43%	38%
Limited Assurance	25%	30%	34%	50%	49%
No Assurance	2%	4%	6%	2%	7%

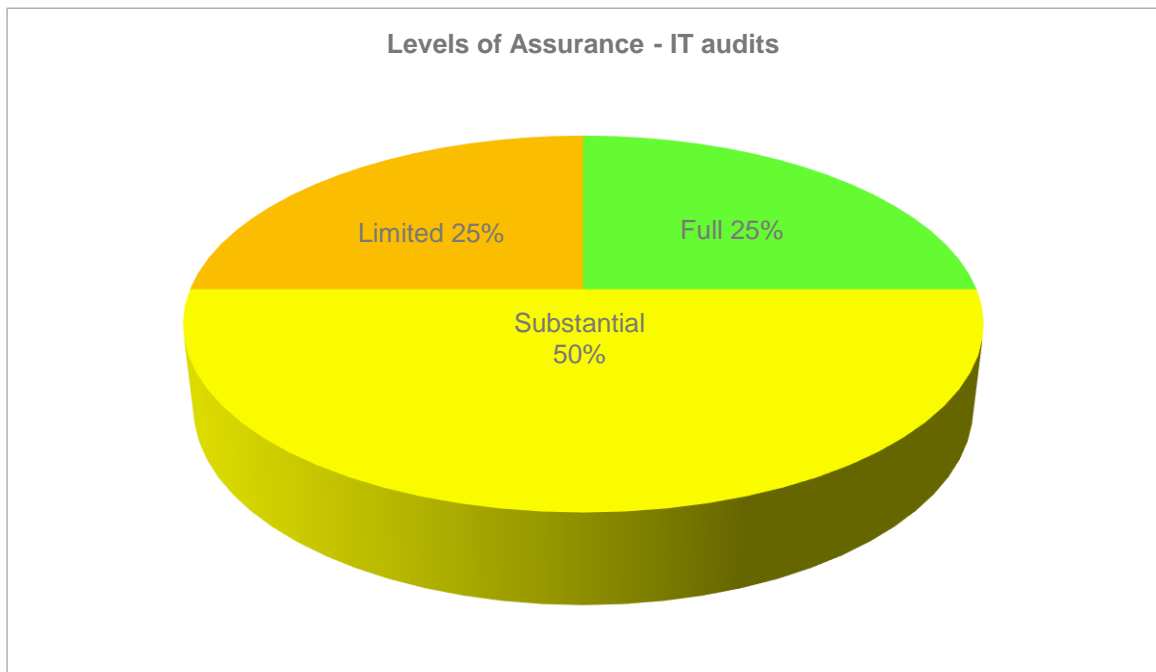
Graph 1 shows the percentage of final audit reports issued per level of assurance over the past five years. As can be seen there has been a steady year on year increase in the number of limited and no assurance audits since 2016/17. The number of limited and no assurance reports in 2020/21 was 56%. As detailed in subsequent graphs, the impact of a high percentage of full and substantial assurance opinions for school audits helped reduce the Council's overall percentage of limited and no assurance reports.

Graph 2 – Levels of Assurance – Systems Audits



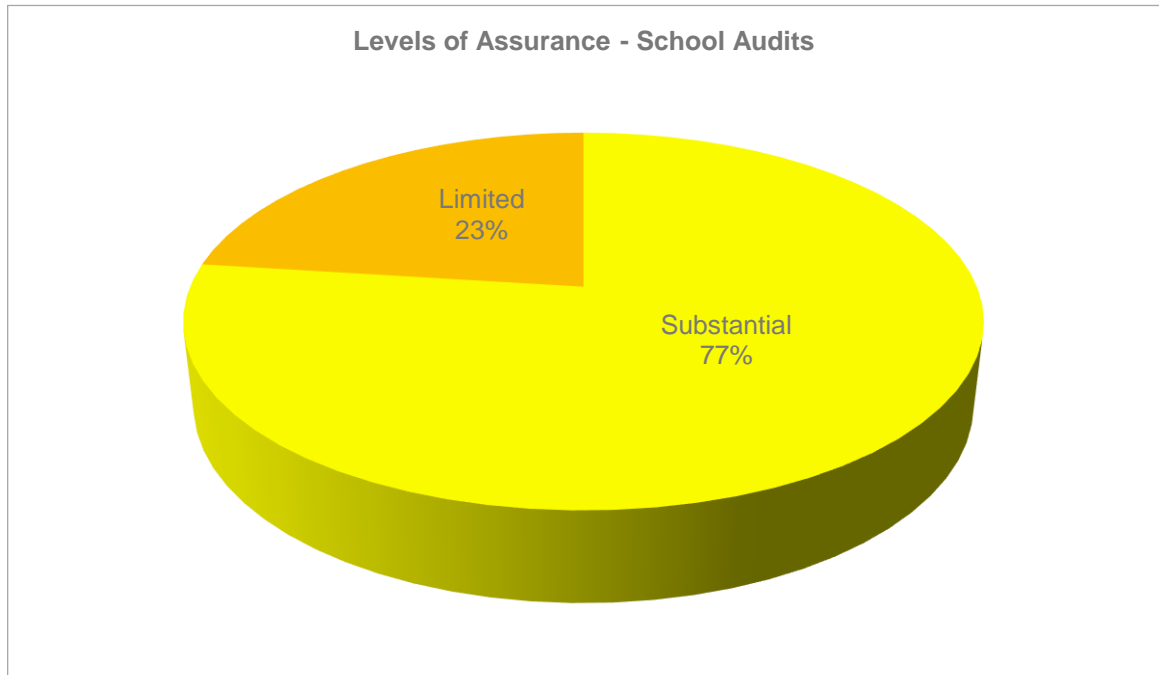
Graph 2 shows the percentage of final reports issued per level of assurance achieved on all the full systems audited. This shows that only 29% of the systems audited, including the core Council financial systems, achieved an assurance level of Substantial or Full. This is a significant decrease in performance on 2019/20 which was 48%.

Graph 3 – Levels of Assurance – IT Audits

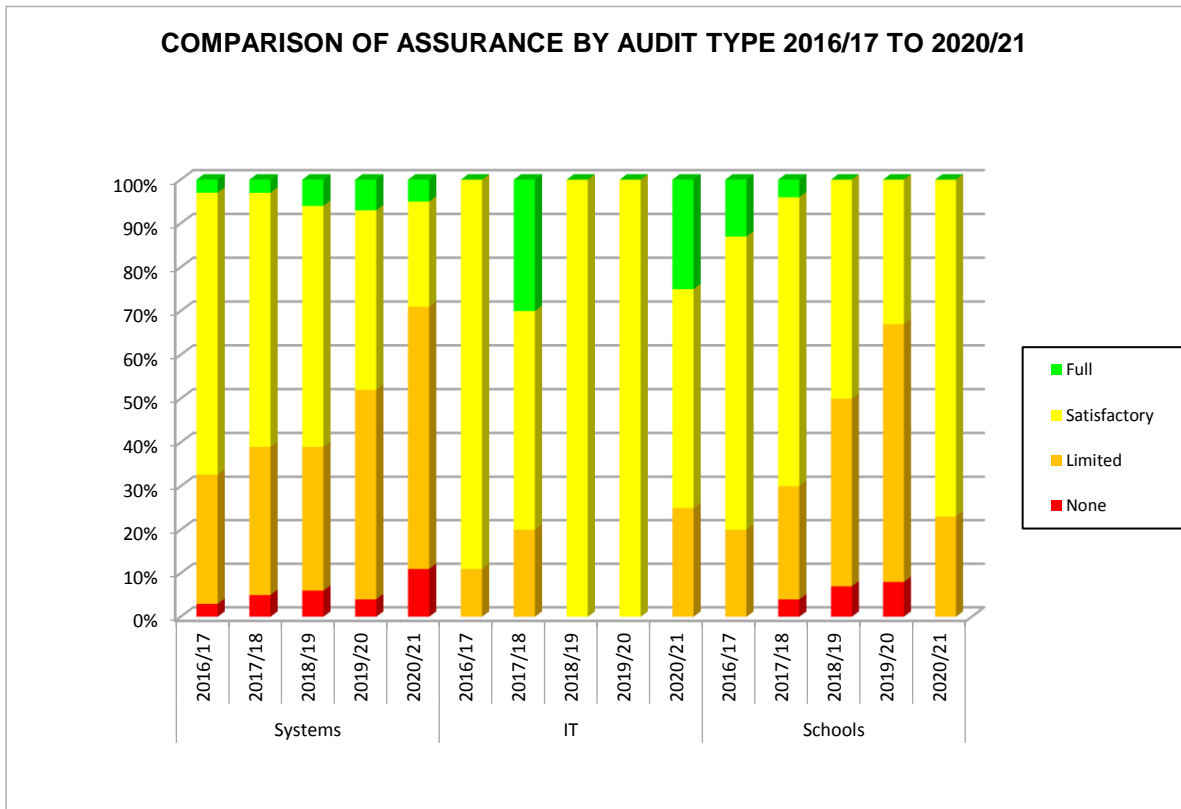


Graph 3 shows the percentage of final audit reports issued per level of assurance for the IT audit programme of work. This shows that 75% (of 4 audits) of the computer audits achieved an assurance level of Full or Substantial. This is a decrease in assurance on 2019/20 (2 audits) which was 100%.

Graph 4 – Levels of Assurance – School Audits



Graph 4 shows the results of the school’s audit programme. A total of 23% of all locations visited resulted in a Limited or No Assurance. This is a significant improvement on the performance in 2019/20 which was 67%. Whilst the number of schools audited is similar year on year, the work also resulted in fewer recommendations year on year.



2020/21 Year Opinion

Internal Control

From the Internal Audit work undertaken in 2020/21, it is our opinion that we can provide only **Limited Assurance** that the system of internal control that has been in place at London Borough of Croydon for the year ended 31 March 2021 accords with proper practice. Details of significant internal control issues are documented in the detailed report.

The assurance can be further broken down between financial and non-financial systems, as follows:



In reaching this opinion, the following factors were taken into particular consideration:

- The results of the internal audit work performed during the year, where 56% of the overall audits undertaken were 'Limited' or 'No' assurance. From a systems audit sub-category, 71% of internal audits were 'Limited' or 'No' assurance.
- 'The 'Report in the Public Interest' by Grant Thornton dated 23 October 2020, which highlighted governance failings and corporate blindness.
- The 'Croydon Finance Review – Phase 1 Report' presented to the General Purposes and Audit Committee on 7 October 2020, which highlighted failings in financial planning, budget setting and budget monitoring.
- The Director of Finance, Investment & Risk (Section 151 Officer)'s positive review of the effectiveness of the internal audit function submitted to the General Purposes and Audit Committee on 7 October 2020.
- A peer review by another London Borough's Head of Internal Audit which was conducted during the course of 2015/16 to assess the extent to which the Council's internal audit service complied with the PSIAS. This showed that the Council's Internal Audit service 'Generally Conforms to the standards'.

Corporate Governance

In our opinion the corporate governance framework does not comply with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on:

- The 'Report in the Public Interest' by Grant Thornton dated 19 November 2020, which highlighted governance failings and corporate blindness, summarising that, '*The missed opportunities represent deficiencies in financial planning, financial management, risk assessment, communication between officers and Members and challenge from Members before approving the strategies and plans that have led the Council needing in-year external financial support. Action must be taken to restore the Council to a sound financial position supported by effective governance.*'
- The 'Croydon Finance Review – Phase 1 Report' presented to the General Purposes and Audit Committee on 7 October 2020, which detailed that, '*The council's financial governance is currently inadequate in relation to some areas of financial planning, budget setting and budget monitoring.*'
- Our annual audit plan of work, which included governance related audits and identified general compliance issues in basic areas of governance and control, where more than 50% of the audits were limited or no assurance.

Risk Management

In our opinion, we consider the risk management processes are in place and should provide regular information on identified key risks and issues to the Council's Management and Executive Teams and through to Members. The assessment, evaluation and documentation of risks and controls were continued during the year so that risk registers are revised and updated for all Departments.

This is based on:

- Our 2019/20 audit (issued in October 2019) of the Risk Management process, for which a Substantial assurance was provided, and
- Our on-going audits of the departmental risk registers as considered as part of internal audits conducted across departments within the plan.

Information Technology

In our opinion the information technology of the Council supports the organisation's strategies and objectives. This opinion is based on our ongoing programme of computer audits, as well as other departmental and corporate audits, which were 75% substantial or full assurance. However we have issued a Limited assurance opinion in respect of Cyber-security.

Acknowledgement

We would like to take this opportunity to formally record our thanks for the cooperation and support we have received from the management and staff during the year, and we look forward to this continuing over the coming years.

HEAD OF INTERNAL AUDIT

Simon Maddocks (Head of Internal Audit, London Borough of Croydon)

July 2021

DETAILED REPORT

Introduction

This section is a report from Internal Audit detailing:

- Any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit.
- Any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification.
- The identification of work undertaken by other assurance bodies upon which Internal Audit has placed an assurance to help formulate its opinion.
- The management processes adopted to deliver risk management and governance requirements.
- Comparison of the work undertaken during the 2020/21 year against the original Internal Audit plans.
- A brief summary of the audit service performance against agreed performance measures.

Significant Control Weaknesses

Internal Audit is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise.

During the financial year 2020/21 the following key issues were identified across our work:

- Internal audit work during the year again identified a number of issues with contract letting, monitoring and management across the organisation.
- Internal audit continues to identify a number of instances where privacy notices relating to the collection of personal data were missing or were no longer fit for purpose.
- There are a number of schools in deficit.
- Internal audit continues to identify general compliance issues in basic areas of governance and control.
- Internal audits have identified issues in the area of temporary accommodation, including arrangements for repairs and maintenance.

The Council has action plans to address these issues and Internal Audit will be involved in further audits of these areas.

Qualifications to the opinion

Internal Audit had unfettered access to all areas and systems across the authority and received appropriate co-operation from officers and Members. Our Internal Audit plans were based on an assessment of risk, including using the Council's risk register and were supported by the members of the Executive and Corporate Leadership Teams individually for their departments and divisions. Based on the work we have undertaken plus our knowledge of the Council, we have no qualifications to raise as a result of our work programme.

Work in delivering the plan was completed during the government measures put in place in response to COVID-19. While our audits were performed remotely, we were able to obtain all relevant documents required to complete these, although this did add delays to the process and the responses to our audit queries.

Other assurance bodies

In formulating the overall opinion on internal control, the Head of Internal Audit also took into account the work conducted by Ofsted as considered through our School audits and the external auditor.

Governance Processes

The key features of the framework for Corporate Governance within the Council are outlined below:

- Challenge and review by the General Purposes & Audit Committee (GPAC).
- Corporate objectives and targets have been established and are monitored.
- Implemented structures and processes.
- Standards of conduct and a Code of Conduct are in place for Members and officers.
- The Constitution, which was adopted by the Council on 21 May 2012 and subsequently amended in July and October 2012, January and July 2014, May 2015, January, May and September 2016 January, June and September 2017, May, July, November and December 2018, February, April and August 2019, January, March, April and June 2020 and February and May 2021.
- The Council's Tenders and Contract Regulations, which form part 4.1 of the Constitution of the London Borough of Croydon and were adopted by Full Council on 15 July 2019.
- Financial Regulations are reviewed and revised on an annual basis under delegated authority (by the S151 Officer in consultation with the Chief Executive and the Executive Director of Resources). The current version of the Financial Regulations was issued during June 2020. Day to day guidance is provided via the Financial Procedures maintained by the Governance Team. Training on the Financial Regulations and Procedures forms part of the governance training currently available to managers and staff under the banner of 'Doing the Right Thing'.

Risk Management Process

The principal features of the risk management process are described below:

Members: The Council has a Member risk champion. The GPAC receives regular reports on risk issues including 'deep dives' on specific risk entries and 'Red rated' Strategic, Governance and Operational Risks are formally reviewed on a regular basis by GPAC. All Cabinet members are briefed on risks in relation to their portfolio via their Executive Director. All major risks are aligned to specific categories of risk to enable further analysis for example risks related to Technology, Human Resources, Finance etc.

Departmental Leadership Team: All risks appear on DLT (Departmental Leadership Team) meeting agendas on a quarterly basis facilitated by a member of the Risk team.

Head of Risk & Insurance: Responsibility for developing, introducing and maintaining Risk Management rests with the Head of Risk & Insurance. He has taken the lead on developing and introducing risk registers, defining processes, documentation and standards, and providing the drive for its implementation. The JCAD Risk computer system is used to facilitate this process.

This includes:

- Quarterly risk challenge through Departmental Leadership Teams is provided by the Risk function,
- Support for self-service on the JCAD Risk computer system provided to Directors/Executive Directors and their Executive and Executive Support Officers to embed risk management in the organisation and ensure on-going review and updating and dynamic usage.
- The running of risk workshops by agreement with Project Boards and at Departmental Team Meetings by the Risk team to support robust Programme and Project Management standards.

A Risk Management toolkit is available on the intranet providing an information source for all Council staff.

Internal Audit Plan

The Internal Audit Plan for 2020/21 was compiled using the Council's Risk Registers as the key drivers in developing audit coverage, as well as detailed discussions with CLT members and departmental management teams. The 2020/21 plan was presented to the GPAC on 17 March 2020.

Although Internal Audit continued to operate post the Covid-19 lockdown restrictions from 23 March 2020, the progression of work from both the 2019/20 and 2020/21 plans was impacted. Our work re-commenced in August 2020 but due to the nature of remote auditing and our reliance on Council staff providing information, there have been some delays in the completion of audit. However, there were no material scope impairments or restrictions on internal audit in 2020/21.

Our work for the year to 31 March 2021 was not fully completed in line with the operational plan, with some 2020/21 audits being incomplete and/or deferred until after year-end. This was due to a combination of reasons including the ongoing impact of Covid-19 and associated lockdown restrictions. The results of these audits, where not completed on time for this Internal Annual Report will be included with those in the 2021/22 audit plan.

The 2020/21 Internal Audit plan is provided in Appendix 1 for information. The schedule shows the number of recommendations raised in each audit during 2020/21 where a report has been issued, as well as those audits delayed due to covid-19. In addition, details of 2019/20 audits delayed due to Covid-19 and issued since the 2019/20 Annual Report have also been included.

Internal Audit Performance

Table 1 below sets out the pre-agreed performance criteria for the Internal Audit service. The table shows the actual performance achieved against any targets that were set.

Table 1

Performance Measure	Target	Actual
Percentage of the Internal Audit Plan completed	100%	83%
Percentage of staff with full qualifications used to deliver the service	40%	40%
% of draft reports issued within 2 weeks of exit meeting with the Client	85%	86%
Number of draft reports	66	30

The Council's internal and external auditors co-operate and liaise where possible to aid greater harmonisation of internal and external audit work, with a view to external audit placing reliance on the work of internal audit.

Council's Performance with respect to Internal Audit

Under the internal audit follow-up protocol, follow-up audits are undertaken to establish whether the issues identified have been successfully resolved according to the action plans agreed with the service managers. The Council's minimum target for audit issues resolved at the time of the follow-up audit is 80% for all priority 2 & 3 issues and 90% for priority 1 issues.

Table 2 sets out the performance for the Council's response to Internal Audits. The table shows the actual performance achieved against any targets that were set in advance.

Table 2

Performance Objective	Target	Performance 2016/17 (to date*)	Performance 2017-18 (to date*)	Performance 2018/19 (to date*)	Performance 2019/20 (to date*)	Performance 2020/21 (to date)
Percentage of priority one issues resolved at the time of the follow up audit	90%	98%	100%	92%	87%	100%
Percentage of all issues resolved at the time of the follow up audit	80%	94%	90%	87%	91%	79%

* The results of those 2016/17, 2017/18, 2018/19, 2019/20 and 2020/21 audits that have been followed up are included in Appendixes 3, 4, 5, 6 and 7 respectively).

Quality and Compliance with the Public Sector Internal Audit Standards

Internal Audit has comprehensive quality control and assurance processes in place and operates in accordance with the PSIAS. This provides an independent assurance of the performance, quality and effectiveness at both the individual audit level and the internal audit service as a whole.

It is currently planned for a full peer review of compliance with the PSIAS to be carried out by the Head of internal Audit from another London Borough in the autumn of 2021.

Appendix 1 – Summary of internal audit work in 2020/21

2020/21 Audit Plan	Department	Assurance	Issues			Total Raised
			Priority			
			1	2	3	
KEY FINANCIALS/ IAS 315 REVIEWS						
Business Rates	Resources		Audit in progress			
Adults Social Care Payment Process	Resources		Audit in progress			
Children's Social Care Payment Processes	Resources		Audit in progress			
Payments to Schools (Include licensed deficit process)	Resources	Limited	1	2	3	6
Council Tax (Draft)	Resources	Full	0	0	0	0
Continuous Auditing (Draft)	Resources	Limited	6	9	0	15
Total Issues Raised			7	11	3	
CORPORATE RISK AUDITS						
Ad Hoc Payments (Draft)	Corporate	Substantial	0	1	0	1
Overtime Payments	Corporate	Limited	0	5	0	5
Service Based Budget Monitoring: Across the Organisation (Draft)	Corporate	Limited	3	4	1	8
Staff Expenses - Compliance checks	Corporate	No	4	1	0	5
Staff Parking and Travel To Work	Corporate		Audit in progress			
Management of Remote Staffing	Corporate		Audit in progress			
Total Issues Raised			7	11	1	19
DEPARTMENTAL RISK REGISTER AUDITS						
End to end Placement process (including disabilities)	Children, Families and Education		Audit in progress			
"Ordinary Residents"	Health, Wellbeing & Adults		Audit in progress			
Blue Badges (Draft)	Health, Wellbeing & Adults	Substantial	0	3	1	4
Clinical Governance (Draft)	Health, Wellbeing & Adults	Limited	2	4	0	6
Continuing Healthcare	Health, Wellbeing & Adults		Audit in progress			
Council Owned Temporary Accommodation: Concierge and Site Management	Health, Wellbeing & Adults		Audit in progress			
Disabled Facilities Grants (Draft)	Health, Wellbeing & Adults	Limited	1	4	2	7
Homelessness: Voids	Health, Wellbeing & Adults		Audit in progress			
Out of Borough Adult Social Care Placements	Health, Wellbeing & Adults		Audit in progress			
Public Health: Contracts Management (Sexual Health) (Draft)	Health, Wellbeing & Adults	Limited	4	3	0	7

Temporary Accommodation: Standards in Private Sector (Draft)	Health, Wellbeing & Adults	Limited	2	4	0	6
Transforming Care	Health, Wellbeing & Adults	Audit in progress				
Placement Deposits	Health, Wellbeing & Adults / Children, Families and Education	Audit in progress				
Overtime Payments - Parking Services	Place	Limited	3	3	0	6
Apprenticeships	Place	Audit in progress				
Corporate Estate: Building Compliance (Draft)	Place	Substantial	0	5	1	6
Croydon Affordable Homes: Contract Management	Place	Audit in progress				
Emissions Based Parking Charges	Place	Audit in progress				
Housing Need and Supply: Roles & Responsibilities	Place	Audit in progress				
Selective Licensing	Place	Audit in progress				
SEN Transport – Safeguarding (Draft)	Place	Limited	2	3	0	5
SLWP - Payments and Recharging Processes	Place	Audit in progress				
Agency Staff - Internal Recharges	Resources	Audit in progress				
CDS Contract Management	Resources	Audit in progress				
Establishment Control	Resources	Audit in progress				
Long Term Sick and Maternity Sick leave	Resources	Audit in progress				
New Supplier Set up	Resources	Audit in progress				
Right To Work checks (Draft)	Resources	Limited	1	1	1	3
Procurement card expenditure under Covid-19 (Draft)	Resources	No	4	4	0	8
Hospital discharges - reclaims	Health, Wellbeing & Adults	Audit in progress				
Supplier relief under covid-19	Resources	Audit in progress				
Local Support Systems (under covid-19)	Resources	Audit in progress				
Grants to Voluntary Organisations	Resources	Audit in progress				
Total Issues Raised			19	34	5	58

COMPUTER AUDITS

Cyber Security (Draft)	Resources	Limited	1	6	2	9
Total Issues Raised			1	6	2	9

CONTRACT AUDITS

CCTV Procurement	Resources	Audit in progress				
Telephony Procurement	Resources	Audit in progress				
Capital programme - Regeneration	Place	Audit in progress				
Emergency and Temporary Accommodation (Phase 3) (incl. VFM)	Resources	Audit in progress				
Buying Team	Resources	Audit in progress				
Total Issues Raised						

SCHOOLS AUDITS

London Borough of Croydon

Tunstall Nursery School	Children, Families and Education	Substantial	0	1	2	3
Thornton Health Nursery School	Children, Families and Education	Limited	2	10	2	14
Forestdale Primary School	Children, Families and Education	Substantial	0	6	5	11
Greenvale Primary School	Children, Families and Education	Substantial	0	6	4	10
Purley Oaks Primary School	Children, Families and Education	Substantial	0	4	5	9
Smitham Primary School	Children, Families and Education	Substantial	0	3	2	5
Winterbourne Nursey and Infant School	Children, Families and Education	Substantial	0	2	3	5
Archbishop Tension's C of E High School	Children, Families and Education	Limited	1	7	3	11
Thomas More Catholic High School (Draft)	Children, Families and Education	Limited	1	8	5	14
St Giles	Children, Families and Education	Substantial	0	1	2	3
St Nicholas	Children, Families and Education	Substantial	0	3	5	8
Red Gates	Children, Families and Education	Substantial	1	1	3	7
Total Recommendations			5	52	41	98

2019/20 Audit Plan	Department	Assurance	Issues			Total Raised
			Priority			
			1	2	3	
KEY FINANCIAL AUDITS						
Banking (Draft)	Resources	Limited	1	2	1	4
Community Care Payments (Draft)	Health, Wellbeing & Adults	Limited	5	1	2	8
Creditors	Resources	Limited	4	7	1	12
Debtors (Accounts Receivable)	Resources	Substantial	0	4	4	8
Main Accounting System (Draft)	Resources	Limited	1	1	0	2
Total Issues Raised			11	15	8	34

DEPARTMENTAL AUDITS						
Special Educational Needs and Disability SEND	Children Families and Education	Limited	2	0	0	2
Age Assessment Judicial Review	Children Families and Education	Limited	2	4	0	6
Financial Assessments – Charging Policy (Draft)	Health, Wellbeing & Adults	Limited	2	3	0	5
SLWP / Veolia (Draft)	Place	Substantial	0	2	1	3
BxB - Council Governance (Draft)	Place	Limited	1	1	0	2
Parks Health and Safety	Place	Limited	3	4	1	8
Debt Recovery – In house	Resources	Substantial	0	1	0	1
Enforcement Agents	Resources	Substantial	0	2	1	3
Freedom of Information and Subject Access Requests (Draft)	Resources	Limited	1	0	2	3
Fairfield Halls Delivery (BxB Management)	Place	No	3	0	0	3
Staff Code of Conduct	Resources	Substantial	0	4	1	5
Staff Debt	Resources	Limited	1	6	1	8
IT Policies Review	Resources	Substantial	0	2	3	5
Total Issues Raised			15	29	10	54

COMPUTER AUDITS						
Azure Back up Application	Resources	Full	0	0	0	0
Microsoft Direct Access Operating System	Resources	Substantial	0	1	3	4
Peoples ICT Application	Resources	Substantial	0	6	1	7
Total Issues Raised			0	7	4	11

CONTRACT AUDITS						
Enforcement Agents - Procurement	Resources	No	4	2	0	6
Supply and Install of Modular Building at Stubbs Mead Depot (Draft)	Place	Limited	3	2	1	6
Contract Managing Street Lighting PFI	Place	Full	0	0	0	0
Total Issues Raised			7	4	1	12

SCHOOL AUDIT

Selsdon Primary School	Children Families and Education	Substantial	0	1	2	3
Total Issues Raised			0	1	2	3

Appendix 2 –Summary of Priority One Issues for finalised audits

Year	Audit Title	Assurance Level & Number of Issues	Summary of key issues raised.
Non- School Audits			
2020/21	Payments to Schools	Limited (One priority 1, two Priority 2 and three priority 3 issues)	A priority 1 issue was raised as, Although statutory guidance issued by the Secretary of State requires that School deficits are cleared in 3 years and do not continue indefinitely, four (out of six) of the licensed deficits in 2020/21 were agreed for schools which did not plan for their deficits to be eliminated within 3 years as required.
2020/21	Overtime Payments – Parking Services	Limited (Three priority 1 and three priority 3 issues)	Priority 1 issues were raised as: <ul style="list-style-type: none"> • Parking Services staff eligibility for overtime was being determined based on the number of penalty charges notices (PCNs) issued, in breach of statutory guidance. • The Enforcement Manager had authorised 101 hours of overtime for his brother in March 2020. • Analysis of the overtime paid forms between 1 January and 31 August 2020 identified 10 Parking Services staff who had on average worked more than 48 hours a week for the period. This is not in line with the Staff Handbook, which requires that staff only work more than 48 hours a week for a limited period of time and on an exceptional basis.
2020/21	Staff Expenses	Limited (Four priority 1 and one priority 2 issues)	Priority 1 issues were raised as: <ul style="list-style-type: none"> • Compulsory Car User Forms were not located for 11 of the sample of 15 staff on the car allowance scheme tested. • Testing of a sample of 30 approved expense claims found that nine of these should not have been approved (seven where appropriate supporting documentation was not provided, one for a parking fine and one for membership) and that nine of these had been incorrectly categorised. • Analysis of a report of expenses claimed identified 12 instances where overpayment had occurred because of duplicate expense claims. • Analysis of a report of expenses claimed identified that 240 expense items were authorised outside of the 90 days eligibility timeframe as defined by Expenses Management Policy. Furthermore, the required director written approval was not available for 14 out the sample of 15 (out of a total of 105) expense items submitted more than 60 days after the expense being incurred.
2019/20	Creditors	Limited (Four priority 1, seven priority 2 and one priority 3 issue)	Priority 1 issues were raised as: <ul style="list-style-type: none"> • Examination of the documentation retained for a sample of 17 transactions identified that for five of these the order was raised either after delivery or after the invoice date. • Examination of the documentation retained for a sample of 17 transactions identified that for four of these the goods or services received check preceded actual delivery.

Year	Audit Title	Assurance Level & Number of Issues	Summary of key issues raised.
			<ul style="list-style-type: none"> Examination of the documentation retained for a sample of 17 transactions identified that five of the invoices included client names (including children in care) thus potentially breaching the Data Protection Act 2018. As at 28 September 2020 the Council had invoices totalling £25,757,492 on hold, of which £7,220,978 related to previous financial years (i.e. 2019/20 and prior) with oldest invoice on hold dating 8 May 2014.
2019/20	Special Educational Needs and Disability (SEND)	Limited (Two priority 1 issues)	<p>Priority 1 issues were raised as:</p> <ul style="list-style-type: none"> The spreadsheet used to record Education, Health and Care (EHC) needs assessment requests and whether the six week timescale to inform parents was being met (as set in the Council's SEN Code of Practice), did not detail that the parents had been informed in 333 cases (despite six weeks having elapsed since the EHC request). In another 29 instances (where there was a record of the parents being informed) the parents were informed late. 79 out of 302 (26%) EHC plans issued in 2019/20 were not completed and issued within the statutory 20 week period..
2019/20	Age Assessment Judicial Review	Limited (Two priority 1 and four priority 2 issues)	<p>Priority 1 issues were raised as:</p> <ul style="list-style-type: none"> The 2018/19 recharge for 50% of the legal costs incurred for age assessment judicial reviews to the UK Border Agency was incorrect. There was a lack of monitoring and reporting of appropriate statistics on the outcomes or costs of age assessment judicial review cases.
2019/20	Parks Health and Safety	Limited (Three priority 1, four priority 2 and 1 priority 3 issue)	<p>Priority 1 issues were raised as:</p> <ul style="list-style-type: none"> A Parks Strategy was not in place. Weekly reports of playground area visual inspections were missing in a number of instances. Fire risk assessments for most of the parks and greenspaces (where applicable) required review and, where appropriate, update.
2019/20	Fairfield Halls Delivery (BxB Management)	No	<p>Priority 1 issues were raised as:</p> <ul style="list-style-type: none"> The licence for access to carry out works in respect of property at Fairfield, College Green issued to BXB did not include specific contract conditions relating to quality or deadline for delivery. The conditional sale of the Fairfield Car Park agreement was still in draft at the time of the substantive internal audit fieldwork in February 2020. The Executive Director Place, a director of BXB, was the chair of the Fairfield Board meetings which is a conflict of interests.
2019/20	Staff Debt	Limited (One priority 1, six priority 2 and one priority 3 issue)	<p>A priority 1 issue was raised as it was identified that no recovery actions had been made for 37 (out of the 70) salary overpayments despite these being over a year old. The total outstanding balance of salary overpayments was £180,038.48.</p>

Year	Audit Title	Assurance Level & Number of Issues	Summary of key issues raised.
2019/20	Enforcement Agents - Procurement	No (Four priority 1 and two priority 2 issues)	<p>Priority 1 issues were raised as:</p> <ul style="list-style-type: none"> The published Contract Notice 2019 OJS113 277545 was open for 27 days only and not 30 as required by The Public Contracts Regulations 2015. As well as incomplete scoring initially, the spreadsheet used for both 'Corporate Services' and 'Parking Services' scoring were not locked down on non-input cells to help protect the integrity of the scoresheet. This resulted in a number of irregularities. An individual scoresheet and the record of moderation were missing for the tender evaluation of January 2018. Contemporaneous records of the reasons and reasoning for the allocation of scores in moderation for both lots of the tender evaluations of August 2019 could not be provided. Attempts have also been made to recreate the reasons and reasoning at a later date. A number of formal agreements extending the arrangements with the service providers could not be provided.
School Audits			
2020/21	Thornton Heath Nursery School	No (Two priority 1, ten priority 2 and two priority 3 recommendations)	<p>Priority 1 issues were raised as:</p> <ul style="list-style-type: none"> The Governing Body did not hold the minimum required three meetings (face to face or on-line) during the 2019/20 school year. Sample testing of 13 transactions found that none of the invoices had been appropriately approved for payment by an identified officer.
2020/21	Archbishop Tenison's High School	Limited (One priority 1, seven priority 2 and three priority 3 issue)	A priority 1 issue was raised as the School did not have a plan to eliminate its deficit within three years as required by the Croydon Scheme for Financing Schools
2020/21	Redgates School	Substantial (One priority 1, one priority 2 and three priority 3 issue)	A priority 1 issue was raised as sample testing of 15 transactions found that eight of the invoices were not evidenced as authorised

Appendix 3 - Follow-up of 2016/17 audits (Incomplete only)

Financial Year	Audit Followed-up	Executive Director Responsible	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
2016/17	Contract Monitoring and Management (Streets Division)	Sarah Hayward	Limited (3 rd follow up in progress)	6	4	67%
Recommendations and implementation from audits that have had responses				418	391	94%
Priority 1 Recommendations from audits that have had responses				45	44	98%

Appendix 4 - Follow-up of 2017/18 audits (Incomplete only)

Financial Year	Audit Followed-up	Executive Director Responsible	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
2017/18	Gifts and Hospitality (Officers)	Asmat Hussain	Substantial (4 th follow up in progress)	4	3	75%
2017/18	Admitted Bodies	Asmat Hussain	Substantial (2 nd follow up in progress)	4	1	25%
Recommendations and implementation from audits that have had responses				431	390	90%
Priority 1 Recommendations from audits that have had responses				46	46	100%

Appendix 5 - Follow-up of 2018/19 audits

Financial Year	Audit Followed-up	Executive Director Responsible	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
Non School Audits						
2018/19	Voluntary Sector Commissioning Adult Social Care	Asmat Hussain	No Assurance (No further follow up)	8	8	100%
2018/19	Housing Repairs	Hazel Simmonds	Limited (No further follow up)	2	2	100%
2018/19	Pensions Administration	Asmat Hussain	Limited (No further follow up)	5	4	80%
2018/19	Children and Families System Support Team (ControCC)	Debbie Jones	Limited (No further follow up)	13	11	85%
2018/19	Payments to In House Foster Carers	Debbie Jones	Limited (No further follow up)	4	4	100%
2018/19	Payments Against Orders	Debbie Jones	Limited (2 nd follow up in progress)	10	3	30%
2018/19	SEN to include Ombudsman upheld complaints	Debbie Jones	Limited (3 rd follow up in progress)	5	2	40%
2018/19	GDPR in Schools	Debbie Jones	Limited (No further follow up)	8	8	100%
2018/19	Health and Safety in Schools	Debbie Jones	Limited (No further follow up)	6	6	100%
2018/19	Voluntary Sector Commissioning Adult Social Care	Asmat Hussain	No (No further follow up)	8	8	100%
2018/19	Energy Recharges	Asmat Hussain	No (1 st follow up in progress)	7	-	-
2018/19	Air Quality Strategy, Implementation and Review	Sarah Hayward	Limited (2 nd follow up in progress)	8	3	37%
2018/19	Allotments	Sarah Hayward	Limited (No further follow up)	5	4	80%
2018/19	Live Well – Active Lifestyle Team	Sarah Hayward	Limited (No further follow up)	7	7	100%
2018/19	No Recourse to Public Funds (NRPF)	Annette McPartland	Limited (No further follow up)	4	4	100%
2018/19	Croylease (Landlord letting Scheme)	Annette McPartland	Limited (No further follow up)	8	8	100%
2018/19	Libraries Income Collection	Annette McPartland	Limited (No further follow up)	5	5	100%
2018/19	Election Accounts and Claims	Asmat Hussain	Limited (No further follow up)	7	6	86%
2018/19	Temporary Employment	Asmat Hussain	Limited (5 th follow up in progress)	16	12	75%
2018/19	Asbestos Management (Beyond the Corporate Campus)	Sarah Hayward	Limited (4 th follow up in progress)	12	9	75%
2018/19	Education Monitoring Tracking for LAC	Debbie Jones	Limited (No further follow up)	11	11	100%
2018/19	PMI General Building Works Service	Sarah Hayward	Limited (No further follow up)	6	5	83%

Financial Year	Audit Followed-up	Executive Director Responsible	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
2018/19	Parking Enforcement and Tickets	Sarah Hayward	Substantial (No further follow up)	5	4	80%
2018/19	School Deficits and Surpluses (Conversion to Academy)	Robert Henderson	Substantial (3 rd follow up in progress)	4	3	75%
2018/19	Highways Statutory Defence	Sarah Hayward	Substantial (No further follow up)	4	4	100%
2018/19	Discretionary Housing Payments	Annette McPartland	Substantial (No further follow up)	3	3	100%
2018/19	Leasehold Service Charges	Annette McPartland	Substantial (No further follow up)	2	2	100%
2018/19	Public Events	Sarah Hayward	Substantial (No further follow up)	7	6	86%
2018/19	South London Work and Health Partnership(SLWHP)	Sarah Hayward	Substantial (No further follow up)	3	3	100%
2018/19	Parking CCTV	Sarah Hayward	Substantial (No further follow up)	1	1	100%
2018/19	Mortuary	Asmat Hussain	Substantial (2 nd follow up in progress)	4	2	50%
2018/19	Growth Zone – High Level Review	Shifa Mustafa	Substantial (No further follow up)	3	3	100%
2018/19	GDPR	Asmat Hussain	Substantial (2 nd follow up in progress)	2	0	0
2018/19	New Legal Services Model	Asmat Hussain	Substantial (1 st follow up in progress)	7	4	57%
2018/19	Council Investment and Operational Properties – Income Maximisation	Asmat Hussain	Substantial (3 rd follow up in progress)	4	3	75%
2018/19	Access to IT Server	Asmat Hussain	Substantial (No further follow up)	3	3	100%
2018/19	Capita Event Management	Asmat Hussain	Substantial (No further follow up)	3	3	100%
2018/19	Third Party – Service Delivery	Asmat Hussain	Substantial (No further follow up)	1	1	100%
2018/19	Cashiers (Cash Handling)	Asmat Hussain	Full (No further follow up)	1	1	100%
Non-School Audits Sub Total: Recommendations and implementation from audits that have had responses				215	176	82%
Non-School Audits Sub Total: Priority 1 Recommendations from audits that have had responses				30	26	87%
School Audits						
2018/19	Virgo Fidelis Convent School	Debbie Jones	No (No further follow up)	27	27	100%
2018/19	Coulsdon C of E Primary School	Debbie Jones	Limited (No further follow up)	8	7	88%
2018/19	The Mister Junior School	Debbie Jones	Limited (No further follow up)	11	9	82%
2018/19	Winterbourne Junior Girls School	Debbie Jones	Limited (No further follow up)	12	12	100%

Financial Year	Audit Followed-up	Executive Director Responsible	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
2018/19	Regina Coeli Catholic Primary School	Debbie Jones	Limited (No further follow up)	10	10	100%
2018/19	St Andrews C of E VA High School	Debbie Jones	Limited (No further follow up)	5	5	100%
2018/19	Thomas More Catholic School	Debbie Jones	Limited (No further follow up)	18	17	94%
2018/19	Christchurch CofE Primary School	Debbie Jones	Substantial (No further follow up)	10	10	100%
2018/19	Orchard Way Primary School	Debbie Jones	Substantial (No further follow up)	8	8	100%
2018/19	Park Hill Infant School	Debbie Jones	Substantial (No further follow up)	6	6	100%
2018/19	Ridgeway Primary School	Debbie Jones	Substantial (No further follow up)	7	6	86%
2018/19	The Hayes Primary School	Debbie Jones	Substantial (No further follow up)	7	7	100%
2018/19	St Mary's Catholic High School	Debbie Jones	Substantial (No further follow up))	12	11	91%
2018/19	Bensham Manor School	Debbie Jones	Substantial (No further follow up)	9	8	89%
School Audits Sub Total: Recommendations and implementation from audits that have had responses				150	143	95%
School Audits Sub Total: Priority 1 Recommendations from audits that have had responses				19	19	100%
Recommendations and implementation from audits that have had responses				365	319	87%
Priority 1 Recommendations from audits that have had responses				49	45	92%

Appendix 6 - Follow-up of 2019/20 audits

Financial Year	Audit Followed-up	Executive Director Responsible	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
Non School Audits						
2019/20	Housing Rent	Annette McPartland	Limited (No further follow up)	3	3	100%
2019/20	Staff Debt	Asmat Hussain	Limited (1 st follow up in progress)	8	-	-
2019/20	Age Assessment Judicial Review	Annette McPartland	Limited (No further follow up)	6	6	100%
2019/20	Alternative School Provisioning	Debbie Jones	Limited (No further follow up)	6	6	100%
2019/20	Partnership Governance – Children and Families	Debbie Jones	Limited (1 st follow up in progress)	5	-	-
2019/20	Special Educational Needs and Disability (SEND)	Debbie Jones	Limited (1 st follow up in progress)	2	-	-
2019/20	Lettings Allocations and Assessments	Annette McPartland	Limited (3 rd follow up in progress)	3	1	33%
2019/20	Placements in Private Housing Accommodation	Annette McPartland	Limited (2 nd follow up in progress)	4	2	50%
2019/20	Adult Social Care (ASC) Waiting List	Annette McPartland	Limited (No further follow up)	4	4	100%
2019/20	Care Market Failure	Asmat Hussain	Limited (No further follow up)	10	10	100%
2019/20	Financial Planning and Forecasting Adult's Services	Annette McPartland	Limited (2 nd follow up in progress)	5	3	60%
2019/20	Occupational Therapy	Annette McPartland	Limited (3 rd follow up in progress)	4	2	50%
2019/20	Bringing Services In-House – Parks Service	Sarah Hayward	Limited (No further follow up)	8	8	100%
2019/20	External funding	Sarah Hayward	Limited (No further follow up)	3	3	100%
2019/20	Food Safety – Data Quality	Sarah Hayward	Limited (No further follow up)	5	4	80%
2019/20	Parks Health and Safety	Sarah	Limited (No further follow up)	8	8	100%
2019/20	Community Equipment Service (Wheelchair Service)	Jacqueline Harris-Baker	Limited (4 th follow up in progress)	3	2	33%
2019/20	Fairfield Halls Delivery (BxB Management)	Sarah Hayward	Limited (1 st follow up in progress)	3	2	66%
2019/20	Enforcement Agents - Procurement	Asmat Hussain	Limited (2 nd follow up in progress)	6	3	50%
2019/20	Business Rates	Chris Buss	Substantial (No further follow up)	1	1	100%
2019/20	Housing Benefit	Chris Buss	Substantial (No further follow up)	2	2	100%

Financial Year	Audit Followed-up	Executive Director Responsible	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
2019/20	Pensions	Chris Buss	Substantial (No further follow up)	2	2	100%
2019/20	Pay and Display Meter Maintenance and Income	Sarah Hayward	Substantial (No further follow up)	4	4	100%
2019/20	Section 17 Payments	Debbie Jones	Substantial (No further follow up)	5	5	100%
2019/20	Sheltered Accommodation (Extra Care Service)	Annette McPartland	Substantial (No further follow up)	3	3	100%
2019/20	Growth Zone – Performance Management	Sarah Hayward	Substantial (No further follow up)	4	4	100%
2019/20	Highways Contract Management	Sarah Hayward	Substantial (No further follow up)	4	4	100%
2019/20	Debt Recovery – In house	Asmat Hussain	Substantial (No further follow up)	1	1	100%
2019/20	Risk Management	Asmat Hussain	Substantial (No further follow up)	4	4	100%
2019/20	Uniform IT Application	Asmat Hussain	Substantial (3 rd follow up in progress)	4	2	50%
2019/20	Northgate iWorld Application	Asmat Hussain	Substantial (No further follow up)	1	1	100%
Non-School Audits Sub Total: Recommendations and implementation from audits that have had responses				116	100	86%
Non-School Audits Sub Total: Priority 1 Recommendations from audits that have had responses				30	22	73%
School Audits						
2019/20	Winterbourne Nursery and Infants	Debbie Jones	No (No further follow up)	22	22	100%
2019/20	Beulah Junior School	Debbie Jones	Limited (No further follow up)	14	13	92%
2019/20	Kenley Primary School	Debbie Jones	Limited (No further follow up)	11	10	91%
2019/20	Margaret Roper Catholic Primary School	Debbie Jones	Limited (1 st follow up in progress)	11	10	91%
2019/20	Minster Infant School	Debbie Jones	Limited (1 st follow up in progress)	16	13	81%
2019/20	Norbury Manor Primary School	Debbie Jones	Limited (No further follow up)	13	13	100%
2019/20	St Joseph's Federation	Debbie Jones	Limited (No further follow up)	14	13	93%
2019/20	Virgo Fidelis Convent Senior School	Debbie Jones	Limited (No further follow up)	19	19	100%
2019/20	Crosfield Nursery and Selhurst Early Years	Debbie Jones	Substantial (No further follow up)	8	7	87%
2019/20	All Saints C of E Primary School	Debbie Jones	Substantial (No further follow up)	12	12	100%

Financial Year	Audit Followed-up	Executive Director Responsible	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
2019/20	Elmwood Infant School	Debbie Jones	Substantial (No further follow up)	6	6	100%
2019/20	Heavers Farm School	Debbie Jones	Substantial (No further follow up)	13	13	100%
2019/20	Selsdon Primary School	Debbie Jones	Substantial (1 st follow up in progress)	3	-	-
School Audits Sub Total: Recommendations and implementation from audits that have had responses				159	151	95%
School Audits Sub Total: Priority 1 recommendations from audits that have had responses				31	31	100%
Recommendations and implementation from audits that have had responses				275	251	91%
Priority 1 Recommendations from audits that have had responses				61	53	87%

Appendix 7 - Follow-up of 2020/21 audits

Financial Year	Audit Followed-up	Executive Director Responsible	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
School Audits						
2020/21	Tunstall Nursery	Debbie Jones	Substantial (No further follow up)	3	3	100%
2020/21	Thornton Heath Nursery	Debbie Jones	No (1 st follow up in progress)	14	-	-
2020/21	Forestdale Primary School	Debbie Jones	Substantial (1 st follow up in progress)	11	-	-
2020/21	Greenvale Primary School	Debbie Jones	Substantial (No further follow up)	10	8	80%
2020/21	Purley Oaks Primary School	Debbie Jones	Substantial (1 st follow up in progress)	9	-	-
2020/21	Smitham Primary School	Debbie Jones	Substantial (1 st follow up in progress)	5	-	-
2020/21	Winterbourne Nursery and Infants School	Debbie Jones	Substantial (1 st follow up in progress)	5	-	-
2020/21	Archbishop Tenison's C of E High School	Debbie Jones	Limited (2 nd follow up in progress)	11	8	73%
2020/21	St Giles	Debbie Jones	Substantial (1 st follow up in progress)	3	-	-
School Audits Sub Total: Recommendations and implementation from audits that have had responses				24	19	79%
School Audits Sub Total: Priority 1 recommendations from audits that have had responses				1	1	100%
Recommendations and implementation from audits that have had responses				24	19	79%
Priority 1 Recommendations from audits that have had responses				1	1	100%

Statement of Responsibility

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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Agenda Item 6

REPORT TO:	GENERAL PURPOSES & AUDIT COMMITTEE 8 July 2021
SUBJECT:	The Redmond Review of Local Audit
LEAD OFFICERS:	Asmat Hussain - Interim Executive Director of Resources and Monitoring Officer Chris Buss – Interim Director of Finance, Investment & Risk and S151 Officer
CABINET MEMBER:	Councillor Callton Young, Cabinet Member for Resources and Financial Governance
WARDS:	ALL
CORPORATE PRIORITY/POLICY CONTEXT:	
FINANCIAL IMPACT There may be increases in audit fees as a result of this review and there will be additional work required to produce standardised statements to publish with the statutory accounts. The Government is making an extra £15 million available across the sector to cover these costs, but until the specific allocations are announced the impact will not be known. There are no additional financial considerations relating to this report.	

1. RECOMMENDATIONS

- 1.1 The Committee is asked to note the outcomes of the Redmond review.

2. EXECUTIVE SUMMARY

- 2.1 This report details the conclusions and recommendations of the Redmond review and the responses from MHCLG on behalf of the Government.

3. DETAIL

Introduction

- 3.1 The Local Audit and Accountability Act 2014 (the 2014 Act) introduced a new Audit regime for local government to replace the previous arrangements, under which the Audit Commission performed that role. Sir Tony Redmond was appointed to conduct a review to examine the effectiveness of local audit as now practised. His findings and recommendations were published in September 2020.

- 3.2 The Review highlighted the following key problems:
- 3.2.1 Current local audit arrangements do not meet the policy objectives underpinning the Local Audit and Accountability Act 2014. In particular, Sir Tony identified weaknesses in the functioning and value of local audit, the timeliness of its findings and how these are considered and managed by local authorities;
 - 3.2.2 Market fragility. Sir Tony highlighted how local audit is an unattractive market for audit firms and individual auditors to operate within. He indicated that “without prompt action... there is a significant risk that the firms currently holding local audit contracts will withdraw from the market”.
 - 3.2.3 Absence of system leadership. The introduction of the localised audit framework in the 2014 Act spread roles and responsibilities for local audit across multiple organisations. Sir Tony argues this has contributed to a lack of coherency and makes resolving the weaknesses in the system challenging.
 - 3.2.4 In addition, the Redmond Review highlighted that the statutory accounts prepared by local authorities are widely agreed to be ‘impenetrable to the public’, limiting how effectively taxpayers can judge the performance of their authority.
- 3.3 The conclusions of the review can be found at **appendix A**.
- 3.4 The recommendations of the review can be found at **appendix B**.
- 3.5 The Government gave an initial response in December 2020 and a further response in May 2021. A table of the initial responses by MHCLG on behalf of the Government and their assessment of progress to date can be found at **appendix C**.
- 3.6 In its initial response the Government addressed most of the recommendations raised by Redmond, but it said that it would consider further some of the more complex issues, particularly those relating to system leadership of local audit activity. In addition, to support the implementation of the recommendations, the Government has announced that it will provide relevant local authorities with £15 million in additional funding in 2021/22 to support affected local bodies to meet the anticipated rise in audit fees in 2021/22, driven by new requirements on auditors and to enable local authorities to develop standardised statements of service information and costs. Allocations will be confirmed in the New Year.

Key Changes

- 3.7 Deadline for publishing local authority accounts is moved from 31st July to 30th September for at least the next 2 years.
- 3.8 The fee structures for local external audits will be revised upwards to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- 3.9 There are currently several organisations responsible for different aspects of local external audit: Determining the Code of Local Audit Practice (National Audit Office (NAO)), regulating the local audit sector (the Financial Reporting Council (FRC)), and monitoring and review of local audit performance (the FRC and the Institute of Chartered Accountants in England and Wales (ICAEW)). These roles will be brought together under the successor to the FRC, the Audit, Reporting and Governance Authority (ARGA). The ARGA will replace the FRC as part of the Government’s reforms

of corporate auditing, governance and reporting and will become the system leader for public sector audit as well as the corporate sector.

- 3.10 The letting and managing of local external audit contracts will continue to be carried out by the Public Sector Audit Appointments Ltd (PSAA).
- 3.11 To help local authority accounts to be more understandable to residents and other stakeholders, the Government is working with CIPFA to develop the new Standardised Statements of accounts, and consideration is also being given to making further amendments to the Accounts and Audit Regulations to require the development and auditing of the new Standardised Statement. This would be published alongside the statutory accounts which themselves may be simplified following consultation.
- 3.12 Guidance is being developed which will require that:
- An annual report is submitted to Full Council by the external auditor regardless as to whether the accounts are signed off or not;
 - At least one independent member, suitably qualified, is appointed to the Audit Committee; and
 - The CEO, Monitoring Officer and Chief Financial Officer (CFO) meet with the Key Audit Partner at least annually.
 - Key concerns relating to service and financial viability be shared between Local Auditors and Inspectorates including Ofsted, Care Quality Commission and HMICFRS prior to completion of the external auditor's Annual Report.
 - Greater reliance by external audit may be placed on the work of internal audit where appropriate to do so in line with the code of practice.

4. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 4.1 There may be increases in audit fees as a result of this review and there will be additional work required to produce standardised statements to publish with the statutory accounts. The Government is making an extra £15 million available across the sector to cover these costs, but until the specific allocations are announced the impact will not be known. There are no additional financial considerations relating to this report

(Approved by: Geetha Blood, Interim Head of Finance, Place and Resources)

5. LEGAL CONSIDERATIONS

- 5.1 The statutory framework within which local authority audits are conducted is set out in the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015.
- 5.2 Both primary and secondary legislation may be required in order to implement the recommendations of the Redmond Review in relation to financial reporting and the audit regime.
- 5.3 The Council will need to ensure it complies with any changes to the codes of practice and legislation as these arise.

(Approved by Doutimi Aseh, Interim Director of Law & Governance & Interim Deputy Monitoring Officer)

6. HUMAN RESOURCES IMPACT

- 6.1 There are no immediate human resources issues arising from this report for LBC employees or staff.

(Approved by: Gillian Bevan, Head of HR, Resources)

7. EQUALITIES, ENVIRONMENTAL AND CRIME AND DISORDER REDUCTION IMPACTS

- 7.1 There are no equalities, environmental or crime and disorder reduction implications of this report

8. DATA PROTECTION IMPLICATIONS

8.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

No.

- 8.2 There are no immediate data protection issues arising from this report.

CONTACT OFFICER: Simon Maddocks, Head of Internal Audit

BACKGROUND DOCUMENTS:

Conclusions of the Redmond Review (September 2020)

- 1 During the course of this Review it has become increasingly apparent that the current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act. As a result, the overriding concern must be a lack of coherence and public accountability within the existing system. For local audit to be wholly effective it must provide a service which is robust, relevant, and timely; it must demonstrate the right balance between price and quality; and be transparent to public scrutiny. The evidence is compelling to suggest that the current audit service does not meet those standards.

Key Factors Determining the Outcomes of the Review

- 2 In reaching the outcome and recommendations for this Review the following key factors have been taken into account:
 - providing clarity of purpose in local audit;
 - giving emphasis to performance and accountability in local audit framework;
 - maintaining and improving the stability of the local audit market;
 - reaffirming the importance of the auditing and accounting staff having the requisite skills, training and experience to fulfil their roles;
 - improving and strengthening the governance arrangements underpinning effective local audit;
 - developing coherence and coordination in the procurement and effective delivery of audit performance within a clear and consistent accountability framework;
 - engaging key stakeholders in regular dialogue as an aid to maintaining an effective local audit service; and
 - providing transparency in financial and external audit reporting to reinforce public accountability.

Local Audit

- 3 As currently configured the local audit market is vulnerable, due in no small part to the under-resourcing of audit work required to be undertaken within the contract sum. In addressing this weakness, a fundamental review of the fee structure is necessary. Evidence suggests that audit fees are at least 25% lower than is required to fulfil current local audit requirements effectively. Concerns reported about variable levels of knowledge and experience of local government finance and accounting demonstrated by auditors must also be addressed. The skills and competencies of auditors must also be paramount if the full extent of audit requirements are to be delivered satisfactorily. The current audit deadline of 31 July is viewed as unrealistic and in the light of the evidence presented by the Call for Views, there is a compelling argument to change this date to 30 September. The procurement arrangements must acknowledge these factors and it is essential that the audit performance regime offers assurance to the public that true accountability has been served.

- 4 Attention has been given to whether the existing local audit framework might be improved to achieve these objectives. The roles and responsibilities of all relevant bodies should be reviewed to respond to the concerns expressed in this report. However, the key challenge is the underlying weakness of the current arrangements where there is no coordination and regulation of local audit activity. This is a role best discharged by a single overarching body.
- 5 A single body would embrace all aspects of local audit incorporating procurement, contract management, the code of local audit practice, accountability for performance, oversight and regulation. Clarity of purpose, consistency and public accountability would be essential features of this approach and the expertise and skills of those currently providing these services would be harnessed and maintained in the new body.
- 6 The Review has highlighted a potential weakness in the way in which audit outcomes are considered and presented to both the local authority and the public. The ability of Audit Committees, which mostly lack independent, technically qualified members, to consider, effectively, audit reports has been challenged in responses to the call for views. In addition, transparency and accountability of audit reports, from a public perspective is lacking and there is considerable scope for the Key Audit Partner to present a report on the principal issues arising from the audit to Full Council at least annually.
- 7 The situation facing PCCs and FRAs is many ways similar to those for principal councils in that audit quality and price are in need of review. Governance here, however, is somewhat different in terms of reporting lines and public accountability as these are currently more transparent than those applying in Principal Authorities.
- 8 Parish Councils, Meetings, IDBs and other smaller authorities operate on a much smaller scale and procurement/contractor arrangements are overseen by SAAA where no serious concerns have been identified. However, there is scope here to improve public reporting of local audit outcomes and attention should be given to 'turnover' thresholds in order to ensure a proportionate level of resource is utilised in fulfilling audit requirements.
- 9 An area that has generated considerable comment is the perceived gap between the reasonable expectations of many stakeholders and what auditors are required to do relating to the financial stability and resilience of local authorities. There is a compelling argument to extend the scope of audit to include a substantive test of financial resilience and sustainability. The scope of this audit needs to be clearly defined and focused to ensure there is a balance between cost and the potential benefits of such additional audit coverage and reporting. This would represent a genuine demonstration of public accountability.
- 10 The new NAO code includes a revised narrative audit opinion and sets out three reporting criteria relating to financial sustainability, governance and improving economy, efficiency, and effectiveness. This approach, once fully established, will provide a very important statement to stakeholders regarding a local

authority's financial health. In effecting this scrutiny of financial sustainability, the auditor would also undertake an assessment of the risks identified in the CFO's annual Section 25 report of the budget. This could be further assisted by a review of the local authority's observance of CIPFA's Financial Management Code which provides a set of statements including value for money and financial resilience. To ensure that the Auditor's work is genuinely transparent and accessible to local taxpayers an Auditor's Report should be presented to the first Full Council meeting after 30 September every year, irrespective of whether the financial accounts have been certified.

Transparency of Financial Reporting

- 11 This report has highlighted the inability of the general public to understand the annual statutory accounts presented by local authorities. The technical complexity of the accounts means that service users/council taxpayers have little or no opportunity to comprehend what is being said or to challenge expenditure and income relating to a specific service and how the local authority has performed.
- 12 Three options have been explained in this report as a possible response to this problem. A review of the existing IFRS based accounts could be undertaken, but, given the requirement to observe international reporting standards, it may not yield the simplicity in presentation and terminology that is sought here. An alternative detailed in this report would entail adapting the existing narrative report produced by local authorities as an addendum to the statutory accounts where discretion would be afforded to each local authority regarding style, content and presentation. The third and final option relates to a new simplified statement of service information and costs as a means of enabling each local authority to communicate, in a standardised format, the key information relating to the budget and council tax setting compared to actual financial performance. If transparency and consistency of financial reporting are to be achieved this last option best meets these objectives although the experience developed in the production of narrative reports may be beneficial in its design.
- 13 A draft of a simplified statement is included as an annex to this report which incorporates the key features of simplicity and transparency. Observance of IFRS based accounts remains an important ingredient in ensuring proper accountability for financial performance, so the current statutory accounts should still be produced. This requirement is underpinned by a Code of Accounting Practice produced by CIPFA. Many local authorities have not purchased the most recent copy of the Accounting Code. Consideration should be given to this being freely available, given its importance in the construction of statutory accounts.

Recommendations of the Redmond Review (September 2020)

The recommendations of this Review are as follows:

External Audit Regulation

1. A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit with the following key responsibilities:
 - procurement of local audit contracts;
 - producing annual reports summarising the state of local audit;
 - management of local audit contracts;
 - monitoring and review of local audit performance;
 - determining the code of local audit practice; and
 - regulating the local audit sector.
2. The current roles and responsibilities relating to local audit discharged by the:
 - Public Sector Audit Appointments (PSAA);
 - Institute of Chartered Accountants in England and Wales (ICAEW);
 - FRC/ARGA; and
 - The Comptroller and Auditor General (C&AG) to be transferred to the OLAR.
3. A Liaison Committee be established comprising key stakeholders and chaired by MHCLG, to receive reports from the new regulator on the development of local audit.
4. The governance arrangements within local authorities be reviewed by local councils with the purpose of:
 - an annual report being submitted to Full Council by the external auditor;
 - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
 - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.
5. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.
6. The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
7. That quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.
8. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.
9. External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.

10. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
11. The revised deadline for publication of audited local authority accounts be considered in consultation with NHSI(E) and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.
12. The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.
13. The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters.

Smaller Authorities Audit Regulation

14. SAAA considers whether the current level of external audit work commissioned for Parish Councils, Parish Meetings and Internal Drainage Boards (IDBs) and Other Smaller Authorities is proportionate to the nature and size of such organisations.
15. SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.
16. SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.

Financial Resilience of local authorities

17. MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.
18. Key concerns relating to service and financial viability be shared between Local Auditors and Inspectorates including Ofsted, Care Quality Commission and HMICFRS prior to completion of the external auditor's Annual Report.

Transparency of Financial Reporting

19. A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts.
20. The standardised statement should be subject to external audit.

21. The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities.
22. CIPFA/LASAAC be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.
23. JPAG be required to review the Annual Governance and Accountability Return (AGAR) prepared by smaller authorities to see if it can be made more transparent to readers. In doing so the following principles should be considered:
 - Whether “Section 2 – the Accounting Statements” should be moved to the first page of the AGAR so that it is more prominent to readers;
 - Whether budgetary information along with the variance between outturn and budget should be included in the Accounting Statements; and
 - Whether the explanation of variances provided by the authority to the auditor should be disclosed in the AGAR as part of the Accounting Statements.

Table of recommendations outlining our response and our progress implementing them

Action to support immediate market stability (recommendations 5, 6, 8, 10, 11)

Recommendation	December MHCLG Response	Progress update
5. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.	Accept; we will work with the ICAEW, CIPFA and FRC to deliver this recommendation	<p>In progress.</p> <ul style="list-style-type: none"> • We committed to working with stakeholders, including the ICAEW, CIPFA and FRC, to deliver this recommendation. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we will provide an update ahead of summer recess.
6. The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.	Accept	<p>In progress.</p> <ul style="list-style-type: none"> • We are currently consulting on proposals to make amendments to The Local Audit (Appointing Person) Regulations 2015 that will, subject to stakeholders' views, provide Public Sector Audit Appointments Ltd (PSAA) (the bulk audit services procurement body) with more flexibility to agree fees that more closely match the actual costs of audit. • We are providing £15 million to principal bodies, both to help support affected bodies to meet the anticipated increase in audit fee costs in 21/22 and to support with new burdens relating to implementing Redmond's recommendations. We are currently seeking views via public consultation on the methodology for distributing this funding in the fairest way and our intention is to confirm individual allocations as soon as possible after the consultation closes on 18 May. • We have reconfirmed PSAA Ltd as the appointing body ahead of the next procurement, and will work closely with them, as well as other stakeholders, to ensure alignment in objectives between the procurement and the wider local audit system.

Recommendation	December MHCLG Response	Progress update
8. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.	Part accept; we will work with the FRC and ICAEW to deliver this recommendation, including whether changes to statute are required	<p>In progress.</p> <ul style="list-style-type: none"> • We committed to working with stakeholders, including the ICAEW and FRC, to deliver this recommendation. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we will provide an update ahead of summer recess. • This includes reviewing guidance relating to the entry criteria for key audit partners (KAPs).
10. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.	Part accept; we will look to extend the deadline to 30 September for publishing audited local authority accounts for two years, and then review	<p>Delivered.</p> <ul style="list-style-type: none"> • Regulations extending the audit publication deadline to 30 September for 2 years came into force on 31 March 2021. • At the end of this period we will review whether there is a continued need to have an extended deadline.
11. The revised deadline for publication of audited local authority accounts be considered in consultation with NHSE/I and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.	Accept	<p>Delivered.</p> <ul style="list-style-type: none"> • Regulations extending the audit publication deadline to 30 September for 2 years came into force on 31 March 2021. • At the end of this period we will review whether there is a continued need to have an extended deadline.

Consideration of system leadership options (recommendations 1, 2, 3, 7, 13, 17)

Recommendation	December MHCLG Response	Progress update
<p>1. A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit with the following key responsibilities:</p> <ul style="list-style-type: none"> • procurement of local audit contracts; • producing annual reports summarising the state of local audit; • management of local audit contracts; • monitoring and review of local audit performance; 	<p>We are considering these recommendations further and will make a full response by spring 2021</p>	<p>Part accept;</p> <ul style="list-style-type: none"> • We accept the need for a single organisation to have responsibility for leadership of the local audit system, including oversight of the quality framework and encouraging competition in the local audit market. • We accept that this requires a single body to have responsibility for: <ul style="list-style-type: none"> o Producing annual reports summarising the

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<ul style="list-style-type: none"> determining the code of local audit practice; and regulating the local audit sector. <p>2. The current roles and responsibilities relating to local audit discharged by the:</p> <ul style="list-style-type: none"> Public Sector Audit Appointments (PSAA); Institute of Chartered Accountants in England and Wales (ICAEW); FRC/ARGA; and The Comptroller and Auditor General (C&AG) to be transferred to the OLAR. 		<p>state of local audit;</p> <ul style="list-style-type: none"> Monitoring and review of local audit performance; Determining the code of local audit practice; and Regulating the local audit sector. <ul style="list-style-type: none"> We do not accept that a new body needs to be created to undertake these functions, and think that these functions, as well as an overarching responsibility for system leadership and encouraging competition in the local audit market, should be undertaken by the Audit, Reporting and Governance Authority (ARGA), set to be established to replace the Financial Reporting Council. We do not accept that this body should also have responsibility for procurement and management of local audit contracts, and think that these should functions should continue to be undertaken by PSAA. We will work with stakeholders to refine these proposals ahead of a public consultation before summer recess.
<p>3. A Liaison Committee be established comprising key stakeholders and chaired by MHCLG, to receive reports from the new regulator on the development of local audit.</p>	<p>We are considering these recommendations further and will make a full response by spring 2021</p>	<p>Part accept; we will establish this new Liaison Committee, but think that this should be chaired by ARGAs as the 'system leader' once the new arrangements are established. MHCLG will chair this in the intervening period.</p>
<p>7. That quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.</p>	<p>We are considering these recommendations further and will make a full response by spring 2021</p>	<p>Part accept; we will work with stakeholders to consider whether additional sanction powers beyond the audit enforcement procedures that ARGAs will already have are necessary.</p>
<p>13. The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of</p>	<p>We are considering these recommendations further and will make a full response by spring 2021</p>	<p>Accept; we have endorsed the changes to the 2020 Audit Code of Practice, and will look to ARGAs to undertake a post implementation review to assess whether these changes have led to more effective external audit</p>

Recommendation	December MHCLG Response	Progress update
financial resilience and value for money matters.	We are considering these recommendations further and will make a full response by spring 2021	consideration of financial resilience and value for money matters in due course. Accept; MHCLG carries out a range of assurance activity, drawing on local authority data and financial metrics and soft intelligence from engagement with the sector. The Department has undertaken additional data collection in 2020-21 to provide government with robust data on local financial pressures in the context of the Covid-19 pandemic, and has also implemented a consistent process to engage with local authorities facing financial challenges and, where appropriate, provide exceptional financial support.

Enhancing the functioning of local audit, and the governance for responding to its findings (recommendations 4, 9, 12, 18)

Recommendation	December MHCLG Response	Progress update
<p>4. The governance arrangements within local authorities be reviewed by local councils with the purpose of:</p> <ul style="list-style-type: none"> • an annual report being submitted to Full Council by the external auditor; • consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and • formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually. 	Accept; we will work with the LGA, NAO and CIPFA to deliver this recommendation	<p>In progress.</p> <ul style="list-style-type: none"> • We committed to working with stakeholders, including the LGA, NAO and CIPFA, to deliver this recommendation. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we will provide an update ahead of summer recess. • This includes consideration of new guidance developed with the stakeholders listed above, as well as the ICAEW and PSAA Ltd, and local bodies and audit firms.
<p>9. External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.</p>	Accept; we will work with the NAO and CIPFA to deliver this recommendation	<p>In progress.</p> <ul style="list-style-type: none"> • We committed to working with stakeholders, including the LGA, NAO and CIPFA, to deliver this recommendation. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we

Recommendation

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12. The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.

Accept; we will work with the LGA, NAO and CIPFA to deliver this recommendation, including whether changes to statute are required

will provide an update ahead of summer recess.
• This includes consideration of new guidance developed with the stakeholders listed above, as well as the ICAEW and PSAA Ltd, and local bodies and audit firms.

In progress.

• We committed to working with stakeholders, including the LGA, NAO and CIPFA, to deliver this recommendation. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we will provide an update ahead of summer recess.

• This includes consideration of new guidance developed with the stakeholders listed above, as well as the ICAEW and PSAA Ltd, and local bodies and audit firms.

In progress.

18. Key concerns relating to service and financial viability be shared between Local Auditors and Inspectorates including Ofsted, Care Quality Commission and HMICFRS prior to completion of the external auditor's Annual Report.

Accept; we will work with other departments and the NAO to deliver this recommendation

• We committed to working with stakeholders, including the LGA, NAO and CIPFA, to deliver this recommendation. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we will provide an update ahead of summer recess.

• This includes consideration of new guidance developed with the stakeholders listed above, as well as the ICAEW and PSAA Ltd, and local bodies and audit firms.

Improving transparency of local authorities' accounts to the public (recommendations 19, 20, 21, 22)

Recommendation	December MHCLG Response	Progress update
<p>19. A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts.</p>	<p>Accept; we will work with CIPFA to deliver this recommendation</p>	<p>In progress.</p> <ul style="list-style-type: none"> • We are currently working with CIPFA to deliver this recommendation. We are taking time to consider how it should work, as it is important that it is of value for taxpayers.
<p>20. The standardised statement should be subject to external audit.</p>	<p>Accept; we will work with CIPFA and the NAO to deliver this recommendation</p>	<p>In progress.</p> <ul style="list-style-type: none"> • We are currently working with CIPFA to deliver this recommendation. We are taking time to consider how it should work, as it is important that it is of value for taxpayers.
<p>21. The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities.</p>	<p>Accept; we will work with the LGA and CIPFA to deliver this recommendation</p>	<p>In progress.</p> <ul style="list-style-type: none"> • We are currently working with CIPFA to deliver this recommendation. We are taking time to consider how it should work, as it is important that it is of value for taxpayers.
<p>22. CIPFA/LASAAC be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.</p>	<p>Accept; we will look to CIPFA to deliver this recommendation</p>	<p>In progress.</p> <ul style="list-style-type: none"> • CIPFA/LASAAC has agreed a new Strategic Implementation Plan that includes delivery of this recommendation.

Action to further consider the functioning of local audit for smaller bodies (recommendations 14, 15, 16, 23)

Recommendation	December MHCLG Response	Progress update
<p>14. SAAA considers whether the current level of external audit work commissioned for Parish Councils, Parish Meetings and Internal Drainage Boards (IDBs) and Other</p>	<p>Accept; we will look to SAAA to deliver this recommendation</p>	<p>In progress</p> <ul style="list-style-type: none"> • We committed to working with stakeholders, including SAAA and JPAG, to deliver these

Recommendation

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Smaller Authorities is proportionate to the nature and size of such organisations.

recommendations. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we will provide an update ahead of summer recess.

- This includes changes to current auditor guidance notes and what additional audit work might be appropriate for 'larger' small bodies.

In progress

16. SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.

Accept; we will look to SAAA to deliver this recommendation

• We committed to working with stakeholders, including SAAA and JPAG, to deliver these recommendations. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we will provide an update ahead of summer recess.

- This includes changes to current auditor guidance notes and what additional audit work might be appropriate for 'larger' small bodies.

23. JPAG be required to review the Annual Governance and Accountability Return (AGAR) prepared by smaller authorities to see if it can be made more transparent to readers. In doing so the following principles should be considered:

- Whether "Section 2 – the Accounting Statements" should be moved to the first page of the AGAR so that it is more prominent to readers;
- Whether budgetary information along with the variance between outturn and budget should be included in the Accounting Statements; and
- Whether the explanation of variances provided by the authority to the auditor should be disclosed in the AGAR as part of the Accounting Statements.

Accept; we will work to JPAG to deliver this recommendation

In progress

• We committed to working with stakeholders, including SAAA and JPAG, to deliver these recommendations. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we will provide an update ahead of summer recess.

- This includes changes to current auditor guidance notes and what additional audit work might be appropriate for 'larger' small bodies.

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