

<b>REPORT TO:</b>	<b>GENERAL PURPOSES &amp; AUDIT COMMITTEE</b> <b>7 October 2020</b>
<b>SUBJECT:</b>	<b>Head of Internal Audit Annual Report 2019/20</b>
<b>LEAD OFFICER:</b>	<b>Head of Internal Audit</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall</b> <b>Cabinet Member for Finance and Resources</b>
<b>WARDS:</b>	<b>ALL</b>
<b>CORPORATE PRIORITY/POLICY</b>	
<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>	
<b>FINANCIAL SUMMARY:</b>	
<p>The Internal Audit contract for 2019/20 was a fixed price of £383K and the appropriate provision was made within the budget for 2019/20.</p>	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.:</b>	

**For general release**

<b>1. RECOMMENDATIONS</b>
1.1 The Committee is asked to note the Head of Internal Audit Report 2019/20 (Appendix 1) and the overall <b>Limited</b> level of assurance of the Council's systems of internal control.
1.2 Note the actions being taken (paras 3.8 to 3.10).

## 2. EXECUTIVE SUMMARY

- 2.1 This report details the work completed by Internal Audit in 2019/20 and the overall levels of assurance for the Council's internal control environment to support the Annual Governance Statement (AGS). The AGS is also on the agenda for this meeting and will be published on the Council's website alongside the final accounts.
- 2.2 From the Internal Audit work undertaken in 2019/20, 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 non-financial systems operating throughout the year were unsatisfactory in some cases. This was contributed to by the significant external factors identified below.
- 2.3 Control weaknesses have been identified and highlighted in relation to:
- Contract letting, monitoring and management;
  - Financial management within the adult and children's social care teams;
  - Energy recharges to external organisations';
  - Privacy notices relating to the collection of personal data;
  - Schools in financial deficit and some weak financial controls; and
  - Claiming, approving and recording of staff expenses.
- 2.4 The report identifies actions that have been agreed to address weaknesses, including:
- All action plans to address individual audit findings are to be signed off by the relevant Executive Director who will be responsible for ensuring implementation.
  - Internal audit will attend Departmental Management Team meetings to discuss issues being reported to members of GPAC.
  - Internal audit will also attend Executive Leadership Team meetings to discuss GPAC audit update reports and the issues that they identify.

### Context

- 2.5 Since 2010 Croydon Council has received significant reductions in grant funding from Central Government. That now amounts to a grant reduction of 75%. Over that same period the Council has delivered £242m in savings. Inevitably that has resulted in some loss of staffing, even before the ravages of the COVID-19 pandemic came onto the scene.
- 2.6 Indeed, as part of her introduction to the GPAC annual report for 2019/20, the Chair, Councillor Jewitt, made the following observation: *As part of its work, the committee has noticed a deterioration in the results of internal audits over the last couple of years and the resultant overall limited assurance that the Head of Internal Audit has given this year. This is clearly happening as a direct result of Central Government cuts in funding and the pressure that these are putting on the organisation.*

### 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 2019/20. 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 **52%** of individual finalised audits received either No or Limited assurance levels [including 8 school audits with limited or no assurance]. This compares with 40% for the previous year. It should be noted, however, 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 finalised internal audits can be broken down as follows:

	Full	Substantial	Limited	No	Total
Key Financial Systems	25% (2)	62% (5)	13% (1)	0% (0)	8
ICT Systems	0% (0)	100% (2)	0% (0)	0% (0)	2
Operational and Departmental Systems	5% (1)	33% (7)	57% (12)	5% (1)	21
Schools	0% (0)	34% (4)	58% (7)	8% (1)	12
<b>Total</b>	7% (3)	41% (18)	47% (20)	5% (2)	43

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. Indications are that the targets for recommendations for

2019/20 will be achieved when the follow up programme is completed over the coming year.

#### Implementation of agreed recommendations

Performance Objective	Target	Performance 2015/16 (to date*)	Performance 2016/17 (to date*)	Performance 2017/18 (to date*)	Performance 2018/19 (to date*)	Performance 2019/20 (to date*)
Percentage of priority one recommendations implemented at the time of the follow up audit	90%	100%	93%%	98%	77%	63%
Percentage of all recommendations implemented at the time of the follow up audit	80%	94%	91%	90%	82%	80%

\* audits are still being followed up for 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 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 2019/20, the following key issues were identified. All 6 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
Although there continues to be improvements, during the course of internal audit work during the year, a number of issues were identified with contract letting, monitoring and management.	<p>Work continues to improve practice across the Commissioning Cycle, key actions in 2019/20 include:</p> <ul style="list-style-type: none"> <li>• development of the commissioning pipeline, enabling us to identify and review legacy arrangements, provide better organisational oversight of existing contracts, and inform strategic planning processes</li> <li>• implementation of additional e-procurement system modules, such as the electronic scoring module, providing us with the ability to move away from some manual processes</li> <li>• the launch of a Procurement Governance Review in January 2020 and the establishment of project team containing all key stakeholders, identifying key</li> </ul>

	<p>management information required to inform our continuous improvement and progress. The Review concluded and made recommendations in July 2020, which are now being implemented.</p>
<p>Internal audit work during the year identified a number of issues relating to financial management within the adult and children's social care teams.</p>	<p><b>ADULTS:</b> The Council is implementing a series of new tools (identified below) that will improve and support financial management departmentally and divisionally.</p> <ul style="list-style-type: none"> <li>• ContrOCC, the finance system that links care and support plans and costs is expected to come on line from the 18<sup>th</sup> of September 2020. Staff are currently in training to prepare for the move to this new system.</li> <li>• MyResources, the tool for Council staff to manage staff establishments, budgets, provider payments and income is now successfully embedded and is providing greater levels of scrutiny for managers.</li> <li>• Dynamic purchasing system (DPS) for care homes, the system to procure all future care provision is currently still under development and has been delayed by the impact of COVID 19. It is being launched in September with the DPS operational by January 2021. DPS 1 (home care) and DPS 3 (supported living/ accommodation) are now operational. The development of the strategy for the Dynamic Purchasing System (DPS), has allowed for closer scrutiny of finance and performance data to inform commissioning plans. A dashboard is being produced to track all placements and packages to be overseen by Directors. Updates on the DPS</li> </ul>

will be given six monthly to Contracts and Commissioning Board.

On monitoring care spend on domiciliary and residential care; the successful implementation of the new adult social care Liquid Logic content management system due to come on line on the 18<sup>th</sup> of September 2020, and the linked financial system, ContrOCC, will be key drivers to achieve improved monitoring.

The Adapt programme remains the key adult social care resource to deliver the savings. Assurances will be presented via the Health Wellbeing and Adults DLT for 2020/21.

With COVID 19, those business cases intended to deliver savings in 2020/21 have had to be revised, due to the reduced ability to deliver. This work has been aligned to the 24 Corporate Workstreams. Links have been made with all Workstream Leads, and interdependencies have been established to deliver reviews of capital spend, fees and charges, review of contracts, and the review of placements and packages

For Adult Social Care, Internal Audit will also deliver an audit on our forecasting and financial planning.

**CHILDRENS:** Placement costs for children in care and care packages for children with disabilities remain a pressure, and to ensure these are better gripped and more accurately forecasted a number of measures are now in place:

- A new Financial Management Framework was agreed at the Departmental Leadership Team (DLT) in June 2020 setting out a robust process and timetable for monthly and quarterly budget monitoring at DLT, ELT and financial

	<p>reporting to members</p> <ul style="list-style-type: none"> <li>• Monthly monitoring by the Executive Director at DLT, with mitigating actions agreed as necessary</li> <li>• A full reconciliation of all placements made, purchase orders receipted and payments made is now being undertaken each month</li> <li>• A weekly child in care review panel has been established, chaired by the Director Early Help &amp; Children's Social Care, to ensure that where children and young people can live safely with families a package of support is provided for them to do so</li> </ul> <p>To strengthen financial management and budget forecasting ContrOCC, the finance system that links care and support plans held in Liquid Logic and placement costs is being implemented and will be fully operational across all children's care groups in September 2020.</p> <p>Progress against recommendations and priority actions from internal audits, where these have been made, will be reviewed and monitored at DLT in a quarterly basis to ensure risks are appropriately mitigated and lessons learned across the Department.</p>
<p>An internal audit conducted during 2018/19 of energy recharges identified some significant weaknesses resulting in circa £4M of recharges being outstanding, a significant part of which related to organisations outside of the council. This resulted in a 'No Assurance' audit report being issued. These significant weaknesses were not yet resolved during 2019/20.</p>	<p>The issues arising from energy recharges and billing has now been resolved with a coding amendment taking place.</p> <p>The schools have been notified and the invoices are being validated as accurate prior to being processed by Facilities Management.</p>
<p>Internal audit continues to identify a number of instances where privacy</p>	<p>The intranet is up to date and contains detailed advice and information for services on the requirements of</p>

<p>notices relating to the collection of personal data were missing or were no longer fit for purpose. Also noted that agreements with 3<sup>rd</sup> parties did not always address this issue adequately.</p>	<p>information management and GDPR including the need for Privacy Notices.</p> <p>An overarching corporate Privacy Notices is in place together with service specific privacy Notices for key services. A review of service specific Privacy Notices will be undertaken by the end of this financial year March 2021. The legal team will review all service requests for new Privacy Notices.</p> <p>A compulsory GDPR refresher e-learning module is due to be rolled out in September 2020 requiring staff to update themselves on key GDPR areas including the requirements around Privacy Notices. An introduction to GDPR training remains a compulsory requirement for all new starters which is undertaken during the probationary period.</p> <p>Communications specific to Privacy Notices and contract agreements will be included as part of keeping colleagues aware of GDPR legislation, this will be done by end of December 2020, in line with all other identified activities following the internal audit.</p> <p>All recommendations required by internal audit have either been implemented or in the most recent reports compliance is in progress. The Information Management Team are supporting relevant services on outstanding recommendations as necessary. Finalised reports continue to be published on the Council's website and available for public viewing.</p>
<p>There are a number of schools in deficit and several instances of weaknesses in financial control.</p>	<p>Comprehensive review and new procedures for schools in deficit developed and issued to schools, requiring submission of 2020/21 License Deficit Return with signed budgets by the 1<sup>st</sup> May 2020. (One school was given an increased timeline for submission of this).</p>

	<p>Scheme for Financing Schools updated to reflect the new forms and arrangements.</p> <p>Approval of Licensed Deficit Plans by S151 officer.</p> <p>Monthly monitoring reports to be submitted by all schools in deficit and a series of monitoring meetings between Local Authority and Schools' senior leadership, including their financial advisor, throughout the year. Governing Body representation required at half termly meetings.</p> <p>Independent advisor commissioned by the Schools Forum to support this process.</p>
<p>An internal audit of staff expenses identified a number of control weaknesses. This resulted in a 'No Assurance' audit report being issued.</p>	<p>The Council's executive leadership team have been briefed about the issues raised by this report.</p> <p>A working group has been setup to review the policy and guidance issued to staff and to undertake further communications to raise awareness of the revised policy/guidance.</p> <p>The expenses policy has been redrafted and combined with the car allowances policy. The new policy has been taken to the unions and there is one outstanding issue about the rates we pay for motor and pedal cycles. There is also a check being undertaken with other London Council's to see what they pay. Once those rates are finalised we can then inform the unions and publish the updated policy. Also, some quarterly checks on expenses claims will be made once the policy is signed off.</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 to be signed off by the relevant Executive Director who will be responsible for ensuring implementation.
  - Internal audit will attend Departmental Management Team meetings to discuss issues being reported to members of GPAC.
  - Internal audit will also attend 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 £383K for 2019/20 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: Felicia Wright, 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 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 effectiveness.
- 6.2 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.
- 6.3 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.

(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 The Director of Finance, Investment & Risk comments that there are no immediate data protection issues arising from this report.

(Approved by: Lisa Taylor, Director of Finance, Investment & Risk)

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**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](#)