

LONDON BOROUGH OF CROYDON

REPORT:	Audit and Governance Committee	
DATE OF DECISION	30 November 2023	
REPORT TITLE:	Internal Audit Update Report	
CORPORATE DIRECTOR / DIRECTOR:	Jane West, Corporate Director of Resources and S151 Officer	
LEAD OFFICER:	Dave Phillips, Head of Internal Audit Dave.Phillips@croydon.gov.uk	
LEAD MEMBER:	Cllr Jason Cummings	
KEY DECISION? [Insert Ref. Number if a Key Decision]	No	REASON: N/a
CONTAINS EXEMPT INFORMATION?	No	Public
WARDS AFFECTED:	N/a	

1. SUMMARY OF REPORT

- 1.1 This report details the work completed by Internal Audit so far during 2023/24 and the progress made by the Council in resolving findings identified from audits.

2. RECOMMENDATION

- 2.1 The Audit and Governance Committee is asked to note the work completed by Internal Audit so far during 2023/24 and the progress made by the Council in resolving findings arising from audits.

3. REASONS FOR RECOMMENDATION

- 3.1 In line with the Sector Internal Audit Standards, the Head of Internal Audit must regularly communicate the internal audit activity's progress against the annual audit plan and in following up findings arising from audits to senior management and the Audit and Governance Committee for review.

4. BACKGROUND AND DETAILS

- 4.1 The Internal Audit report (Appendix 1) includes the following:

- a list of all audits completed so far in 2023/24, including audits relating to prior audit plans, but finalised after the start of the current year, and
- lists of follow up audits completed and the percentage of priority one, and other audit findings implemented.

4.2 Internal Audit is responsible for conducting an independent appraisal of all the Council's activities, financial and otherwise. It provides a service to the whole Council, including Members and all levels of management. It is not an extension of, nor a substitute for, good management. The Internal Audit Service is responsible for giving assurance on all control arrangements to the Full Council through the Audit and Governance Committee and the Chief Financial Officer (also known as the Section 151 Officer). It also assists management by evaluating and reporting to them the effectiveness of the controls for which they are responsible.

PROGRESS AGAINST THE AUDIT PLAN

- 4.3** By 31 October 2022 35% (33% last year) of the 2023/24 planned audit days had been delivered and 11% (10% last year) of the draft audit reports due for the year had been issued. Internal Audit is on target to complete the 2023/24 Internal Audit Plan on time, with all remaining internal audits scheduled in.
- 4.4** Of the two Internal Audit 2023/24 reports finalised since the Head of Internal Audit Report, both (100%) are limited assurance.

FINALISED INTERNAL AUDIT REPORTS

4.5 All finalised internal audit reports are published on the Council's public internet site and these can be found at:

<https://www.croydon.gov.uk/democracy/budgets/internal-audit-reports/introduction>

4.6 In addition, the tables below set out the priority 1 and 2 issues identified at each audit finalised since the last update report to this committee. (Please note that, although some of these audits were included in the annual Head of Internal Audit Report in September 2023, these have been included here as the Committee would not have seen the breakdown of the priority 1 and 2 issues for these.)

4.7

Agency Use and IR35 (Limited Assurance)
<p>Priority 1 Issues</p> <ul style="list-style-type: none"> • Sample testing found that IR35 panel approval was not evident or applied for eight of the 15 suppliers subject to IR35 assessment before being set up in MyResources.

- Status Determination Statements (SDS) were not being produced to inform the IR35 determination.
- A check was not in place to confirm if Adecco has an appropriate arrangement for agency workers in accordance with IR35 legislation

4.8

Azure Cloud Usage (Substantial Assurance)
<p>Priority 2 Issues</p> <ul style="list-style-type: none"> • The Azure landing zone and architecture documentation was not up to date and remained in Capita branding. A recent significant technical change had also not been reflected in the technical documentation. IT outages caused by reliance on out-dated technical documentation could result in an impact to front line Council services and / or reputational damage to the Council. • Separate from the usual IT Administration accounts for the day to day managing of Azure services, there was only a single emergency access 'break glass' account. Should this account be required and found to be compromised, there would be no other means of gaining access to the Azure platform without Microsoft's intervention. This could result in significant delays in recovering the Council's Azure platform resulting in extended IT outages potentially impacting front line Council services and / or reputational damage to Croydon.

4.9

Capital Spend Projections and Monitoring (Substantial Assurance)
<p>Priority 2 Issues</p> <ul style="list-style-type: none"> • The Council's Financial Regulations (and underlying procedure notes) do not set out capital monitoring and reporting requirements across directorates nor the need to perform capital project spend reconciliations. • There is a need to improve the capital monitoring process at a directorate level to enhance consistency across the various capital projects. This is borne from the findings in the report, such as capital project reconciliations being done annually rather than monthly and project managers not having access to the finance system, 'My Resource', for project spending reconciliations.

4.10

Journals: Impact on Budget Management (No Assurance)
<p>Priority 1 Issues</p> <ul style="list-style-type: none"> • No journals policy or procedures. • Requirements for approval of journals are undefined. • Purpose and frequency of journals is undefined

Priority 2 Issues

- Oracle does not record approval of journals.
- Working papers not uploaded to Oracle.
- Cost-centre variances not investigated or documented.

4.11**Member / Officer Protocol – Staff Training (Substantial Assurance)****Priority 2 Issues**

- There was no clear programme of training in place for staff in relation to the Member Officer Protocol.
- Not all members had completed the mandatory training relating to the Member Officer Protocol.

4.12**Mental health / Staff Well Being Processes and Procedures (Full Assurance)****No Priority 1 or 2 Issues****4.13****SGO Allowances (Limited Assurance)****Priority 1 Issues**

- Testing a sample of 15 cases identified three cases where discretionary payments were not recorded on the child's support plan or were used when financial resources documentation was not provided by the SG and were not evidenced as appropriately approved.
- There was no evidence that the Department for Education (DfE) means testing calculator was used in determining the financial status of all the beneficiaries of Special Guardianship (SG) allowances.
- Sample testing of 15 cases identified seven children under the SG arrangement without a support plan and a further six cases where the support plans were not signed by all the relevant parties.

Priority 2 Issues

- The London Borough of Croydon Special Guardianship, Child Arrangements Order and Adoption Order Allowances Policy (SG Allowances Policy), dated October 2020, needs to be reviewed and updated, and monitoring procedures across directorates need to be documented to reflect current practice and legislation.

- Testing identified the Council did not issue an initial SG allowance acceptance letter, which contained the support T&C to all SG carers and not all SG signed the acceptance letter.
- Testing identified that not all the SG's sampled had sent annual statements to the Council and the Council did not follow up on the outstanding annual statements.
- The Children's Payment Team (CPT) send weekly payment schedule reports to the Business Support Officer (BSO) F&F. It was noted that BSO did not always respond to the CPT to evidence that the reconciliations were carried out.
- The audit sample showed that the Council had not conducted all the due SG support plan annual reviews.
- Review of the SG Allowance Policy noted that oversight and reporting responsibilities to the directorates were not defined.

4.14

CALAT Finance Planning (Substantial Assurance)
<p>Priority 2 Issue</p> <ul style="list-style-type: none"> • Examination of the course calculator spreadsheet for five cost centres suggested total negative balances of £133,595 indicating adverse financial sustainability for the delivery of the courses.

4.15

Food Safety – FSA Reporting (Substantial Assurance)
<p>Priority 2 Issue</p> <ul style="list-style-type: none"> • Newly registered businesses were not sufficiently triaged for inspection. • Inspections were not being carried out in a timely manner and childminders had not been inspected at all. • Insufficient resources were available to undertake inspections due to the impact of the Council's budget gap on Food Safety team expenditure

4.16

SLWP Income Collection and Payment of Funds (Limited Assurance)
<p>Priority 1 Issues</p> <ul style="list-style-type: none"> • Invoices were raised on behalf of the Council by Veolia, meaning that the invoice was presented on Croydon head paper and contained the Croydon VAT number, so in effect the Council was paying itself VAT. Also, only one supplier was set up on the Accounts Payable system for Veolia. As a

consequence, there were several unpaid invoices relating to the service. This issue was also raised in 2021/22.

- Review of the Customer Statements issued to the Royal Borough of Kingston upon Thames and London Boroughs of Merton and Sutton (on 1 November 2022), found that a total of £5,656,743.46 in recharges remained outstanding.

4.17

HMO Licensing (Limited Assurance)

Priority 1 Issues

- Upon application for an HMO license, inspection notes are expected to be completed as part of the assessment of the application, however, inspection notes were not provided for nine out of ten sample licenses
- According to the Council's Application Form for HMO Licenses, under section 15, all applicants must provide an up-to-date Fire Risk Assessment (FRA) and Gas Safety Certificate as part of their application. However, testing of a sample of ten licenses found that three did not have up to date fire risk assessments and one did not have a valid gas

Priority 2 Issue

- The Council did not maintain a report of all properties that required remedial action/s

4.18

Crosfield Nursery School and Children's Centre (Limited Assurance)

Priority 1 Recommendations

- The Centre should review the Financial Deep Dive Report set by the Council to develop an appropriate budget plan and strategy. This should be reviewed and approved by the Full Governing Body (FGB) and implemented prior to the financial year that it relates to.
- The Centre should review the current DBS register for Governors and ensure that a DBS check is in place for each. Where a check has been initiated, the Centre should ensure that this is followed up with the Disclosure and Barring Service and safeguards implemented until clearance has been received. The School should ensure that all DBS checks are applied for within 21 days of appointment of a new Governor, with this documented to evidence compliance.
- Where costs relating to transactions can be identified in advance, an official Purchase Order should be raised by the Centre Business Manager (CBM) and authorised by the Head Teacher prior to placing the order with the supplier in accordance with the Scheme of Delegation.

- The School should ensure that a Goods/Services Received Check is completed by an officer separate to the approval of invoices.
- The School should ensure that all invoices are authorised prior to payment being made, in line with the Scheme of Delegation.
- The Centre should work with the Data Protection Officer (DPO) and Governors to develop a comprehensive strategy for information governance. This should include, but not be limited to, the reviewing and approving of the following: - Retention Policy, the Information Governance Policy; and appropriate GDPR training for Governors and Staff members that will occur on a periodic basis. The Centre should ensure that Governors are reminded of the need to review their LGF email accounts and decline to issue restricted information to personal accounts.
- The Centre should ensure that two written references are obtained for candidates prior to the commencement of employment. The date the references were obtained and checked should be documented clearly

Priority 2 Recommendations

- The Centre should review its Financial Procedures and ensure that these are in line with the Scheme of Delegation. This includes authorisation limits of staff members tasked with financial responsibilities. The Centre should ensure that the Financial Procedures are ratified by the FGB annually, with this formally documented within meeting minutes.
- The Centre should ensure that the School's Financial Value Standard (SFVS) has been completed, reviewed and approved by the FGB. This should be documented within meeting minutes and submitted to the Local Authority by the 31st March each year.
- The Centre should ensure that a monthly Budget Monitoring report is reviewed by the CBM and the Head Teacher at least monthly, with evidence of the review maintained. Evidence can be in the form of a signature or email confirmation.
- The Centre should ensure that the draft Pay Policy is formally reviewed and approved by the Governing Body at its next meeting. Subsequent review and approval of the policy should be completed annually, with this formally documented in meeting minutes.
- The Centre should ensure annual benchmarking reports are updated, reviewed and approved by the FGB.
- Contracts should be reviewed on a regular basis against comparative quotations to ensure that value for money is being maintained and should not be rolled over on a continuous basis. The review and approval of the contracts by the FGB should be clearly documented in the meeting minutes.

4.19

All Saints' C of E Primary School (Limited Assurance)

Priority 1 Recommendation

- The School should confirm the tax status of individuals prior to making payments. This can be achieved through School completing the CREST Toolkit provided by HMRC.

Priority 2 Recommendations

- The School should ensure that funds used in relation to the purchase identified during testing are refunded to the School. The School should conduct a review of transactions conducted in the last year to ensure that all funds have been used for bona fide School expenditure, any transactions identified which have not been for the use of the School should be paid back. Going forward the School should ensure that funds are used for bona fide School expenditure.
- The School should ensure that the Terms of Reference for the Resource Committee is approved by the FGB at the next meeting. Subsequent reviews should then be completed annually, with approval formally documented in meeting minutes to evidence compliance.
- The School should ensure that the register of interest for Governors is uploaded to the School's website for public review.
- The School should ensure that Pecuniary and Personal Interest forms evidence a countersign.
- The School should review the current Scheme of Delegation and update it to ensure that committee delegations limits are lower than the FGB limits.
- The School should ensure that the Pay Policy is approved by the FGB at the next meeting. Subsequent reviews should then be completed annually, with approval formally documented in meeting minutes to evidence compliance.
- The School should ensure that the data used for benchmarking is up to date and makes adequate reference to the benchmarking of the senior leadership team.
- The School should then ensure that the report is then issued to the Governing Body for review and discussion, with this formally documented within meeting minutes.
- The School should ensure that two written references should be obtained for candidates prior to their commencement of employment. The date the references were obtained and checked should be documented clearly.
- The School ensure that staff receive adequate safeguarding training when joining and during their time at the School.
- The School should ensure that members of staff who are no longer at the School are removed from the bank mandate, in a timely manner

4.20

Coulsdon C of E School (Substantial Assurance)
Priority 2 Recommendation <ul style="list-style-type: none">• There was no privacy notice in place for the School's governors.

4.21

Heavers Farm Primary School (Substantial Assurance)
Priority 2 Recommendation <ul style="list-style-type: none">• The School was unable to evidence that fire emergency plans were exercised once per term.

4.22

Thomas Moore Catholic School (Limited Assurance)
Priority 1 Recommendation <ul style="list-style-type: none">• Sample checking found an employee on the April 2022 Salary Report not on the School's Single Central Record. There was therefore a lack of evidence of recruitment and safeguarding checks for this employee.
Priority 2 Recommendations <ul style="list-style-type: none">• The School had not formally assessed the skills and competencies for staff with financial responsibilities.• A review of goods received checks found that there were no signatures to demonstrate a separation of duties used when goods were received and just a stamp being used to mark goods as received.• The School could not evidence that quotes were received for two high value purchases (over £10k) and a further two purchases did not include the purchase order number.• An examination of monthly bank reconciliations found that the reconciliations are not signed by the staff members completing and also those reviewing the document.

4.23

Coloma Convent Girls School (Limited Assurance)
Priority 1 Recommendations <ul style="list-style-type: none">• A review of the School's Governance Constitution found that six new governors had been appointed in the last 12 months. For four of these governors, DBS checks were not applied for within 21 days following the appointment of each respective governor as required by regulations.

Examination of the School's Single Central Record established that the DBS checks for two Governors were more than three years old and were last issued on 11 March 2016 and 21 November 2018.

- An Information Asset Register was requested from the School Business Manager (SBM) but was not made available for the purpose of this audit.
- Prior to the audit fieldwork, the School were provided a Health and Safety checklist that was to be completed prior to the ending of the review. The School did not provide a copy of the completed Health and Safety Checklist over the course of the audit period. Internal Audit was therefore not able to confirm whether Health and Safety checks had been undertaken by the School and that these were up to date.

Priority 2 Recommendations

- While a quarterly budget monitoring report is generated and presented to the Governing Body, Internal Audit was not provided evidence to confirm that monthly budget monitoring reports were being reviewed (and signed) by the Headteacher each month.
- Internal Audit was informed by the School Business manager (SBM) that the School Pay Policy, which is required to be annually reviewed and approved by regulations, was due for approval by the full Governing Body on 11 July 2022; however, evidence was not provided to confirm whether this had been reviewed and approved by the full Governing Body on 11 July 2022.
- A review of right to work documentation provided for five staff members commencing employment with the School during 2021/22 found that, in two cases where both staff members were teachers, right to work documentation was not signed and dated as required by UK Borders Agency guidance.
- Internal Audit was not provided evidence of a Staff Induction Pack. As such, Internal Audit could not confirm that the Child Protection Policy, Staff Behaviour Policy and role of the Designated Safeguarding Lead was being provided to all staff as part of the induction process.
- Examination of the documentation relating to a sample of 15 purchases selected from the school's Bank Account History report dated from 1 April 2021 to 24 June 2022 found that for five purchases, the purchase orders were raised after the corresponding invoices had been received.
- Internal Audit requested evidence of a Cashflow Forecasting report from the SBM but this was not made available.
- Internal Audit was informed by the Headteacher and SBM that a HR Policies and Procedures Manual was not in place.
- Examination of the School's GDPR Data Protection Policy found that this policy was last reviewed by the full Governing Body on 5 December 2019. Further to this, the consequences of any breaches, such as written warnings, were not identified within the GDPR Data Protection Policy.

- A review of the IRMS Toolkit for Schools Data Retention Policy found that this policy was published and approved by the Governing Body in 2019. The SBM asserted that the IRMS Toolkit for Schools Policy was last reviewed on 5 August 2021 by the Clerk and Governors. However, this could not be evidenced
- Examination of documentation relating to five letting arrangements in place between the school and the hirer found that for all five lets, signed Hirer Agreements were not retained on file. Further to this, authorisation of these five lets by the Headteacher was not evidenced to Internal Audit.

FOLLOW-UP REVIEWS

4.24 When Internal Audit identifies risks, recommendations are made and agreed with service managers to mitigate these. The Council then needs to ensure that action is taken to implement audit recommendations. The Council's targets for audit recommendations implemented are 80% for all priority 2 and 3 recommendations and 90% for priority 1 recommendations. The performance in relation to the targets for 2017/18 to 2021/22 audits are shown Table 1.

Table 1: Implementation of Audit Findings

	Target	2018/19	2019/20	2020/21	2021/22	2022/23
Implementation of priority one recommendations at follow-up	90%	100%	99%	74%	70%	50%
Implementation of all recommendations at follow-up	80%	80%	93%	84%	89%	71%

4.25 It was also agreed, following the Audit and Governance Committee meeting in January 2023, that the Council should set a target to complete all historic follow ups in a timely manner. In this regard, the Council has made good progress in clearing the 2018/19 and 2019/20 follow ups, with only one remaining in 2018/19 and three remaining in 2019/20.

4.26 FINANCE IMPLICATIONS

4.26.1 The fixed price for the Internal Audit Contract is £0.365m for 2023/24 and there is provision within the budget to meet this expense.

4.26.2 In light of the recent financial challenges faced by the Council the finance function is engaging with Internal Audit to ensure the Council acts upon its recommendations to improve financial management and value for money.

4.26.3 Comments approved by Lesley Shields, Head of Finance for Assistant Chief Executive and Resources on behalf of the Director of Finance. (15/11/2023)

4.27 LEGAL IMPLICATIONS

4.27.1 The Head of Litigation & Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that the Council should be taking steps to improve the Assurance level within the Council.

4.27.2 Information provided in this report is necessary to demonstrate the Council's compliance with requirements imposed by Regulation 5 of the Accounts and Audit Regulations 2015. The Council is required to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.

4.27.3 The Committee should also note the Council are under a duty (s3(1) Local Government Act 1999) as a best value authority 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 addition, under Directions dated 20 July 2023, issued by the Secretary of State under Section 15(5) of the Local Government Act 1999, the Council must, amongst other things "secure as soon as practicable that all the Authority's functions are exercised in conformity with the best value duty, thereby delivering improvements in services and outcomes for the people of Croydon".

4.27.4 When undertaking its Audit functions this Committee's role includes the following responsibilities:

- Oversee internal and external audit, helping to ensure that efficient and effective assurance arrangements are in place
- To review (but not direct) internal audit's risk-based strategy, plan and resource requirements
- To review summary internal audit reports and the main issues arising and seek assurance that action has been taken where necessary
- To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services and make recommendations as appropriate to management, Cabinet and/or Full Council.

4.27.5 In considering the recommendation in this report the Committee should have regard to the Council's overall governance and financial position.

4.27.6 The contents of this report, and of the Internal Audit Report 1st April 2023 to 31 October 2023 should be carefully considered, in particular in relation to those Audits where the Assurance Level is Limited, and in relation to the implementation of recommendations.

4.27.7 Approved by: Sandra Herbert, Head of Litigation & Corporate Law, on behalf of the Director of Legal Services and Monitoring Officer (17/11/2023).

4.28 HUMAN RESOURCES IMPLICATIONS

4.28.1 The HR impacts arising from this report for Council employees or staff are identified in the body of the report. This is particularly in relation to the requirement for adequate staff training and robust employment eligibility checks, which the Council / relevant school must ensure are in place. Any issues arising, will be managed through the Council's relevant HR policies and procedures.

4.28.2 Approve by Gillian Bevan, Head of HR Resources and Assistant Chief Executives on behalf of the Chief People Officer (15/11/2023)

4.29 EQUALITIES IMPLICATIONS

4.29.1 The Council is required to comply with the Public Sector Equality Duty [PSED], as set out in the Equality Act 2010. The PSED requires the Council to have due regard to the need to:

- eliminate discrimination,
- equality of opportunity and
- good relations between different people when carrying out their activities.

Failure to meet these requirements may result in the Council being exposed to costly, time consuming and reputation-damaging legal challenges.

4.29.2 When Internal Audit is progressing 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.

4.29.3 Comments approved by Naseer Ahmad on behalf of the Equalities Manager. (Date 15/11/2023)

5. APPENDICES

5.1 Appendix 1 – Internal Audit report for the period to April to 31 October 2023.

6. BACKGROUND DOCUMENTS

6.1 None

7. URGENCY

7.1 There is none.