

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	
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.	
FINANCIAL SUMMARY:	
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.	
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](#)