

REPORT TO:	GENERAL PURPOSES & AUDIT COMMITTEE 4 March 2021
SUBJECT:	Internal Audit Update Report To 31 January 2021
LEAD OFFICER:	Simon Maddocks, Head of Internal Audit
CABINET MEMBER:	Councillor Callton Young Cabinet Member for Resources and Financial Governance
WARDS:	ALL
CORPORATE PRIORITY/POLICY CONTEXT:	
<p>Internal Audit's work helps the Council to improve its value for money by strengthening financial management and supporting risk management. Strengthening value for money is critical in improving the Council's ability to deliver services which, in turn helps the Council achieve all its visions and aims. The external auditor relies on the work from the internal audit programme when forming opinions and assessments of the Council's performance.</p>	
FINANCIAL IMPACT	
<p>The Internal Audit contract for 2020/21 is a fixed price contract of £390k and appropriate provision has been made within the budget for 2020/21.</p>	

1. RECOMMENDATIONS
1.1 The Committee is asked to note the Internal Audit Report to January 2021 (Appendix 1).

2. EXECUTIVE SUMMARY

- 2.1 This report details the work completed by Internal Audit so far during 2020/21 and the progress made in implementing recommendations from audits completed in previous years.

3. DETAIL

- 3.1 The Internal Audit report (Appendix 1) includes the following:
- a list of all audits completed so far in 2020/21 and audits relating to 2019/20, 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 recommendations implemented.
- 3.2 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 General Purposes & Audit 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.
- 3.3 Of the small number of reports finalised and issued since 1st April 2020, 60% have received Full or Substantial Assurance.

4. FOLLOW-UP REVIEWS

- 4.1 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 2015/20 audits are shown Table 1.

Table 1: Implementation of Audit Recommendations

	Target	2015/16	2016/17	2017/18	2018/19	2019/20
Implementation of priority one recommendations at follow-up	90%	100%	98%	100%	89%	87%
Implementation of all recommendations at follow-up	80%	94%	93%	91%	86%	88%

5. PROGRESS AGAINST THE AUDIT PLAN

- 5.1 By January 2021 **41%** (68% last year) of the 2020/21 planned audit days had been delivered and **11%** (42% last year) of the draft audit reports due for the year had been issued. The contractor has given assurances that the necessary resources are available to deliver the internal audit plan in-year as usual, but it is unlikely that the organisation will have the capacity to support a greater level of internal audit activity at this time, so it is likely that the plan will not be

completed on time. The delays so far this year have been caused by a number of factors, principle of which was the furloughing of our audit contractor's staff for around three months at the start of the year because of the COVID-19 pandemic.

6. FINALISED INTERNAL AUDIT REPORTS

6.1 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>

6.2 In addition, the tables below set out the priority 1 and 2 issues identified at each audit finalised since the last report to this committee.

6.3

Greenvale Primary School (Substantial Assurance)
No Priority 1 Issues
<p>Priority 2 Issues</p> <ul style="list-style-type: none"> • The School's SFVS self-assessment completed for 2019/20 was not formally agreed by the full Governing Body as required prior to being submitted to the Council. • Although the Head Teacher and School Business Manger reviewed the finances monthly on SIMs (The Schools finance system), this review was not evidenced and formal monthly budgeting reports containing budget vs. actual performance were not produced. • A copy of a Disclosure Barring Check (DBS) had been retained for over 6 months, which may be in breach of the Data Protection Act 2018. • Sample testing of 15 payments found that two invoices predated the corresponding purchase orders raised by the School. • Examination of monthly bank reconciliations for the last 5 months found that none of these had been evidenced as independently checked. • A checklist of the various responsibilities and duties under current health and safety legislation (as these relate to the maintenance, statutory compliance and repair upkeep of school buildings) was reviewed as part of the audit. Whilst it was evidenced through completion of the checklist by the School that a good overall level of compliance was reported, some gaps were noted.

6.4

Winterbourne Nursery and Infant School (Substantial Assurance)
No Priority 1 Issues
<p>Priority 2 Issues</p> <ul style="list-style-type: none"> • A copy of a Disclosure Barring Check (DBS) had been retained for over 6

months contrary to Data Protection requirements.

- Testing of a sample of 15 transactions identified an instance where payment had been made to an individual without PAYE and NI deductions being made. Although an employment status check had been completed, this had been completed by the individual and not by the School as required.

6.5

Tunstall Nursery (Substantial Assurance)

No Priority 1 Issues

Priority 2 Issue

- The School's 2019/20 completed SFVS self-assessment, although signed by the Chair of Governors, had not been formally agreed by the full Governing Body as required.

6.6

Thornton Health Nursery (No Assurance)

This report would have received Limited Assurance but for the fact that the responses from the school gave little comfort that all the issues were accepted or would be addressed.

Priority 1 Issues

- 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.

Priority 2 Issues

- The School's Finance Policy and Procedure, which includes the scheme of financial delegation, has not been reviewed in the last 12 months as required.
- The School's 2019/20 completed SFVS self-assessment, although signed by the Chair of Governors, has not been formally agreed by the full Governing Body as required.
- The School's 2019/20 annual budget, although signed by the Chair of Governors, had not been formally agreed by the full Governing Body as required.
- Monthly budget monitoring was not being conducted.
- Examination of the Single Central Record found the Disclosure Barring Service (DBS) checks for four governors were last renewed over three years ago.
- The Schools Pay Policy had not been formally reviewed and agreed by the full Governing Body in the last 12 months as required.
- Sample testing of the records for three new starters found that evidence of

'right to work' checks was not being maintained as required.

- Sample testing of 13 non-pay expenditure transactions found three cases where the orders were dated after the corresponding invoices.
- Sample testing of 13 non-pay expenditure transactions found five cases where there was no goods received/services check evidenced.
- Examination of the procurement card documentation provided for the period 3 June to 3 October 2020 found that there was no evidence of any reconciliations being conducted.

7. CONSULTATION

- 7.1 The outcome of all audit work is discussed and agreed with the lead service managers. The final reports and audit recommendations are sent for consideration by Departmental Leadership Teams (DLT). Details are circulated and discussed with Directors on a regular basis.

8. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 8.1 The fixed price for the Internal Audit Contract is £390k for 2020/21 and there is adequate provision within the budget. There are no additional financial considerations relating to this report
- 8.2 Internal Audit's planning methodology is based on risk assessments that include using the Council risk registers processes.

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

9. LEGAL CONSIDERATIONS

- 9.1 The Head of Litigation and Corporate Law comments on behalf of the Council Solicitor and Monitoring Officer that the Council should take steps to improve the Assurance level within the Council.
- 9.2 Information provided in this report is necessary to demonstrate the Council's compliance with requirements imposed by Regulation 5 of the Local Government Accounts and Audit (England) 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.

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

10. HUMAN RESOURCES IMPACT

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

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

11. EQUALITIES, ENVIRONMENTAL AND CRIME AND DISORDER REDUCTION IMPACTS

- 11.1 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.

12. DATA PROTECTION IMPLICATIONS

- 12.1. **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

No.

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

CONTACT OFFICER: Simon Maddocks, Head of Internal Audit

BACKGROUND DOCUMENTS: Internal Audit report for the period to January 2021
(appendix 1)