

REPORT TO:	GENERAL PURPOSES & AUDIT COMMITTEE 26 April 2021
SUBJECT:	Internal Audit Update Report To 28 February 2021
LEAD OFFICER:	Simon Maddocks, Head of Internal Audit
CABINET MEMBER:	N/A
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 February 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 the 2019/20 plan, but finalised after the period covered by the last annual report,
 - lists of follow up audits completed and the percentage of priority one, and other audit recommendations implemented, and
 - Other internal audit work.
- 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 reports finalised and issued since the last annual report, 62% have received Full or Substantial Assurance, which is an improvement on last year.
- 3.4 In addition to standard audits and in order to focus on key controls, the 2020/21 Internal Audit Plan included a single 'continuous audit' of some key controls. This being a quarterly audit of key controls across some of the key audit areas. The outcomes so far highlighted the following issues:
- Housing voids were not being properly monitored, with housing void reports not been prepared or shared monthly.
 - Reconciliations of the Housing Repairs system to MyResources were not being conducted monthly, with reconciliations for August to September 2020 not being completed.
 - Monthly reconciliations of the Payroll system to MyResources for April to September 2020 were not evidenced as checked. These were subsequently checked in January 2021.
 - Quarterly debt write offs had not been conducted for parking enforcement or accounts receivable.
- 3.5 More informally, there is help, training and support provided to services that get into difficulties with matters relating to financial systems and processes. This is showing that there is still a lack of understanding of the importance of:
- Setting up suppliers before or at the start of an engagement
 - Raising Purchase Orders at the time that a service is procured

- Not sitting on invoices until suppliers start to chase and even threaten legal action or refuse to deal with the Council
- Doing IR35 (Tax status) checks before determining how sole contractors will be paid
- Getting Procurement Card spend properly and promptly approved
- Not using ad-hoc/one time payments instead of setting up suppliers because of loss of supplier information and difficulty reclaiming VAT

3.6 Although the results of formal audits completed so far are encouraging and much work has been done across the organisation since the Report in the Public Interest was issued by the External Auditor and last years Limited Assurance by Internal Audit, other indicators are suggesting that internal control still has some way to go. It is still possible that this year's internal audit assurance level may again be limited. These other indicators include, inter alia, the continuous auditing results and general support issues identified above, several organisation wide audit reports that are still draft but are currently unsatisfactory, and the several external reports published during the year identifying issues with internal control, governance and good practice.

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%	92%	91%
Implementation of all recommendations at follow-up	80%	94%	93%	91%	87%	90%

5. PROGRESS AGAINST THE AUDIT PLAN

5.1 By February 2021 **61%** (83% last year) of the 2020/21 planned audit days had been delivered and **25%** (62% last year) of the draft audit reports due for the year had been issued. As previously predicted the plan will not be completed on time this year. 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 and lack of capacity within the organisation to catch-up as the year has progressed.

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 update report to this committee.

6.3

Debtors (Accounts Receivable) (Substantial Assurance)
No Priority 1 Issues
Priority 2 Issues <ul style="list-style-type: none">• Testing of a sample of 20 newly created or amended debtor accounts found that 8 of these were not created /amended within the 5 day target,• 30 of the 124 unprocessed invoices/ credit notes were pending at the time of audit (in March 2020), had been outstanding for more than three working days (between 5 and 70 days),• At the time of the audit (in March 2020), there were 77 open tasks totalling £395,034.72 relating to disputed invoices dated between July 2019 and December 2019,• Write-off batches were not being processed on a quarterly basis.

6.4

Enforcement Agents (Substantial Assurance)
No Priority 1 Issues
Priority 2 Issues <ul style="list-style-type: none">• There was no evidence to confirm that complaints received by enforcement agencies were notified to the Council in a monthly report (as required by the Local Guidance for Enforcement Agents and Local Enforcement Agencies).• Meetings with the respective enforcement agencies used for business rates and council tax collections were held sporadically and not on a monthly basis as required.

6.5

Staff Code of Conduct (Substantial Assurance)
No Priority 1 Issues
Priority 2 Issues

<ul style="list-style-type: none"> • Some of the policy/ guidance documents referenced in the Code were more than two years old or did not exist. • No documented evidence was available to demonstrate how the Human Resources team obtained assurance that compliance with Code was being enforced. • The record of breaches of the Code for 2019/20 maintained by Human Resources was incomplete and did not evidence that cases were being dealt with in a timely manner. • Evidence was only available that 626 of the Council's staff (about 18% of the workforce) had completed the mandatory eLearning training on the revised Code

6.6

IT Policies (Substantial Assurance)
No Priority 1 Issues
Priority 2 Issues <ul style="list-style-type: none"> • There was no dedicated clear desk & clear screen policy (either as a standalone or as a section of the information management policy), to promote data and information security. • A number of the key IT policies were overdue a review and, where appropriate, an update.

6.7

Microsoft Direct Access Operating System (Substantial Assurance)
No Priority 1 Issues
Priority 2 Issues <ul style="list-style-type: none"> • Through review of the authenticated patch assessment of the Windows 2012 R2 server it was identified the server was missing some operating system security patches and software updates that fix publicly known security vulnerabilities.

6.8

Peoples ICT Application (Substantial Assurance)
No Priority 1 Issues
Priority 2 Issues <ul style="list-style-type: none"> • Risks associated with the programme were not reflected within the corporate risk register, however we do note that each project within the programme has its own risk register which are reported and escalated

where appropriate to do so.

- There was not a documented terms of reference for all forums within the programme managing projects relating to Adults Social Care, Children, Education, Housing and Asset Management nor defined the frequency of those forums
- There was not a developed communication plan for any of the projects, with the exception of Adult Social Care.
- The limited initial project initiation documentation (PID) and business cases had not been reviewed since these were initially defined. Subsequent actions have been taken that may mean that the programme may now not reflect the initial defined business case or objective as the project has evolved.
- There have been challenges dealing with a number of the third parties contracted to the programme. In particular we were informed by the Programme Manager that the contracts with Albany Beck / BetterGov had to be redesigned as these were not clearly defined in the early stages of the project. This resulted in 4-6 months of renegotiation between the Council and the service provider.
- The programme did not follow the Council's programme methodology nor did the underlying projects. We did note that the programme has followed the general principles of PRINCE II / MSP but had to make pragmatic decisions to enable the mobilisation of the projects, as so much time had been lost in the procurement phase.

6.9

Staff Debt (Limited Assurance)
Priority 1 Issues <ul style="list-style-type: none">• 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.
Priority 2 Issues <ul style="list-style-type: none">• Examination of the Council's Corporate Debt Recovery Policy identified no explicit reference to the treatment of staff debt. Furthermore, the Council did not have a policy that establishes a staff debt handling procedure.• Through discussions with the Corporate Debt Recovery Team and Payroll it was established that there was no policy or established procedures in place to allow for staff to make a declaration of debt.• It was established that there is no robust means of identifying staff in non-employment related debt. The identification of staff in such debt is a matter of coincidence rather than process.• Reconciliation between the benefit agreements and payslips of 15 employees identified one case in which the value of the administrative

costs that were charged to the employee were incorrect.

- Examination of the latest write-off batch spreadsheet identified that it had not been prepared with the frequency detailed in the Corporate Debt Write-Off Policy.
- It was established that since June 2018 Income and Debt Board meetings had ceased. Furthermore, there was no evidence that staff debt performance metrics had been produced during this period.

6.10

SEND (Limited Assurance)

Priority 1 Issues

- The spreadsheet used to record 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.

No Priority 2 Issues

6.11

Enforcement Agents – Procurement (No Assurance)

Priority 1 Issues

- 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:
 - direct input to the summary worksheet overwriting the formula driven cells (both Corporate and Parking Services);
 - part incorrect cell addresses in the arithmetic of a number of cells (Parking Services);
 - incorrect cell addresses brought forward in some cell formulas (Parking Services); and
 - Neither the first and second scoresheets included evaluator comments to help drive subsequent discussion and exploration of the bids in moderation (Corporate Services).

- An individual scoresheet and the record of moderation are 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.

Priority 2 Issues

- In order to collect comments as part of the exercise to recreate the moderation comments, a 'moderated' scoresheet was provided to evaluators to populate. Cells F166 167 of the worksheet 'Corporate Services' had transposed the incorrect scores.
- Inequitable numbers of representatives of interested parties to the tender evaluation of one moderation meeting took place risking subconscious bias.

6.12

Forestdale Primary School (Substantial Assurance)

No Priority 1 Issues

Priority 2 Issues

- The Finance Policy & Procedures document, dated May 2020, included some anomalies such as approvals by Finance Committee when there is no Finance Committee.
- Although right to work checks had been conducted for the three new starters sampled, copies of documentation seen as part of this process had not been retained as required.
- Examination of the documentation held for a sample of transactions found that for the three above the limit at which they required approval by the full Governing Body, there was no evidence of approval other than by the Headteacher.
- Examination of the documentation held for a sample of 15 transactions found that five of the purchase orders were dated after that of the corresponding invoices.
- Examination of the documentation held for a sample of 15 transactions found that for seven of these a goods or services received check was not evidenced.
- 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) reviewed as part of the audit identified that, while the School has a good overall

level of compliance, some gaps were noted.

6.13

Archbishop Tenison's CE High School (Limited Assurance)

Priority 1 Issues

- The School did not have a plan to eliminate its deficit within three years as required by the Croydon Scheme for Financing Schools.

Priority 2 Issues

- Examination of the Staff, Finance and Premises Committee found that the meeting minutes did not include a standing opening item for declaration of interests.
- Sample testing of the records for three new starters found that evidence of 'right to work' checks was not being maintained as required.
- Testing of a sample of five starters found that for one of the staff members, the post was not advertised, no panel notes were kept and only one reference has been obtained.
- Inspection of the Single Central Record found that for three staff members and six Governors, DBS's had not been renewed for over three years.
- Examination of the Business Continuity Plan shows that it was last reviewed in February 2016.
- The Schools Information Asset Register (or other alternative document) could not be located at the time of audit, although this was subsequently located.
- 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.

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 and Resources)

9. LEGAL CONSIDERATIONS

- 9.1 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.
- 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.
- 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. The view of internal audit, at paragraph 6.3 should also be carefully considered. In particular that there remains issues with internal control, governance and good practice.
- 9.4 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.

(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 Whilst there are no immediate human resources issues arising from this report for LBC employees or staff, the outcomes as identified in section 6, namely Staff Code of Conduct and Staff Debt, are noted.

(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 February 2021
(appendix 1)