

# Croydon Council

<b>REPORT TO:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b> <b>15 September 2022</b>
<b>SUBJECT:</b>	<b>Head of Internal Audit Annual Report 2021/22</b>
<b>LEAD OFFICER:</b>	<b>Dave Phillips, Interim Head of Internal Audit</b>
<b>CABINET MEMBER</b>	<b>N/A</b>
<b>WARDS:</b>	<b>ALL</b>
<b>CORPORATE PRIORITY/POLICY</b>  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.	
<b>FINANCIAL SUMMARY:</b>  The Internal Audit contract for 2021/22 was a fixed price contract of £372k and appropriate provision was made within the budget for 2021/22.	

## **1. RECOMMENDATIONS**

- 1.1 The Committee is asked to note the Head of Internal Audit Report 2021/22 (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 2021/22 and the overall level of assurance for the Council's internal control environment to support the Annual Governance Statement (AGS). The AGS is included on the agenda for 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 2021/22, it is the Interim 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:

- Internal audit continues to identify general compliance issues in basic areas of governance and control.
- Internal audit work during the year again identified a number of issues with contract letting, monitoring and management across the organisation.
- 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.
- Internal audits have identified issues over the setting and monitoring of savings plans and over the process of service budget monitoring.
- Internal audits have identified issues in the area of temporary accommodation, including arrangements for repairs and maintenance.\*

\*Please note that Internal Audit is aware of wider repair and maintenance issues, but as Internal Audit work on this area is still ongoing and no audit reports on this yet issued, it is not included in the issues above.

2.4 This report covers a period of unprecedented change within the organisation brought on by (a) the continuing 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 Reports 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. In particular, the Corporate Management Team (CMT) are much more focussed on governance issues, with monthly Internal Audit updates being reported to CMT and with monthly audit focus group meetings, where deep dives on key and outstanding audit issues are conducted. Work is still ongoing to embed good governance throughout the organisation, and includes mandatory training on key processes and increased compliance checks.

## 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 2021/22. 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 **54%** of individual audits received either No or Limited assurance levels. This is in line with the previous year; however, 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	0% (0)	25% (2)	75% (6)	0% (0)	8
ICT Systems	0% (0)	0% (0)	0% (0)	100% (1)	1
Operational and Departmental Systems	10% (4)	33% (13)	49% (19)	8% (3)	39
Schools	0% (0)	80% (8)	20% (2)	0% (0)	10
<b>Total</b>	7% (4)	39% (23)	47% (27)	7% (4)	58

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 2017/18 (to date*)	Performance 2018/19 (to date*)	Performance 2019/20 (to date*)	Performance 2020/21 (to date*)	Performance 2021/22 (to date*)
Percentage of priority one recommendations implemented at the time of the	90%	100%	98%	93%	71%	100%

follow up audit						
Percentage of all recommendations implemented at the time of the follow up audit	80%	91%	91%	90%	78%	77%

\* Audits are still being followed up for 2017/18, 2018/19, 2019/20 and 2021/22 and therefore the percentage is likely to change.

- 3.7 Internal Audit continues to work with departments to help improve implementation timescales. This includes monthly reports to the CMT 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 2021/22, 5 key issues were identified (detailed in paragraph 2.3 above). All 5 of these items have been carried forward to the Annual Governance Statement (AGS) and responses sought from relevant management.
- 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 signed off by the relevant Corporate Director who is responsible for ensuring implementation.
  - Internal audit attends CMT meetings to monthly report on outstanding audit reports and overdue follow up actions. These are discussed further at monthly CMT audit focus group meetings.

## **4 CONSULTATION**

- 4.1 The outcome of all audit work is discussed and agreed with the lead service managers. The CMT receives monthly 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 £372K for 2021/22 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 Since the start of the financial year further strengthening of financial internal controls has taken place. A key improvement has been the formalisation of the assurance meetings, which are chaired by the S151 Officer and CEO. This allows for a detailed scrutiny in relation to in year budget delivery along progress made with regards to MTFS Savings proposals.
- 5.4 Financial systems have improved over the past two years and further work is ongoing to further strengthen these. The Council has embarked on Financial System improvement programme and has recently secured a 2 year extension with its main Financial System provider to ensure a sustainability and further development opportunities to better utilise the Finance system to improve internal controls.
- 5.5 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: Nish Popat, 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 Legal Services and Monitoring Officer 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 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 (Accounts and Audit Regulations 2015). The Committee should note that the Council is 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.
- 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 Audit and Governance 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.
- 6.5 In considering the recommendation in this report the Committee should have regard to the Council's overall governance and financial position. The 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

Legal Services and 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 and Assistant Chief Executives on behalf of Dean Shoemith, Chief People Officer)

## **8 CUSTOMER FOCUS, EQUALITIES, ENVIRONMENTAL, HUMAN RIGHTS & FREEDOM OF INFORMATION IMPACTS**

- 8.1 Under the Public Sector Equality Duty of the Equality Act 2010, the Council must evidence consideration of any potential impacts of proposals on groups who share the protected characteristics, before decisions are taken. This includes any decisions relating to how authorities act as employers; how they develop, evaluate and review policies; how they design, deliver and evaluate services, and also how they commission and procure services from others. These include areas in which internal audit provide assurance of the Council's systems and processes.

- 8.2 Section 149 of the Act requires public bodies to have due regard to the need to:

- eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;
- advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
- foster good relations between people who share a protected characteristic and people who do not share it.

- 8.3 Protected characteristics defined by law include race and ethnicity, disability, sex, gender reassignment, age, sexual orientation, pregnancy and maternity, and religion or belief.

- 8.4 This report has no direct equality implications. The limited assurance rating has not highlighted any specific concerns about the internal controls in relation to the Council's process for equality impact assessments. However, this approach is regularly reviewed and the Equality, Diversity & Inclusion Internal Control Board has been established to monitor and strengthen the Council's activities in relation to equalities.

Approved by Gavin Handford, Director of Policy, Programmes & Performance

## **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.
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**CONTACT OFFICER:** Dave Phillips, Interim Head of Internal Audit

**BACKGROUND DOCUMENTS:** Individual finalised internal audit reports are posted on the council's website

**APPENDICES:** London Borough of Croydon Head of Internal Audit Report 2021-22