

<b>REPORT TO:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b> <b>14 November 2022</b>
<b>SUBJECT:</b>	<b>Internal Audit Update Report</b> <b>to 30 October 2022</b>
<b>LEAD OFFICER:</b>	<b>Dave Phillips, Interim Head of Internal Audit</b>
<b>CABINET MEMBER:</b>	<b>Councillor Jason Cummings</b> <b>Cabinet Member for Finance</b>
<b>WARDS:</b>	<b>ALL</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b>	
<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>	
<b>FINANCIAL IMPACT</b>	
<p>The Internal Audit contract for 2022/23 is a fixed price contract of £368k and appropriate provision has been made within the budget for 2022/23.</p>	

<b>1. RECOMMENDATIONS</b>
1.1 The Committee is asked to note the Internal Audit Report to 30 October 2022 (Appendix 1).

## EXECUTIVE SUMMARY

- 2.1 This report details the work completed by Internal Audit so far during 2022/23 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 2022/23, 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 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 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.
- 3.3 Of the 5 Internal Audit reports finalised since the Head of Internal Audit Report, 2 (40%) are limited or no 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 2017/18 to 2021/22 audits are shown Table 1.

**Table 1: Implementation of Audit Recommendations**

	Target	2017/18	2018/19	2019/20	2020/21	2021/22
Implementation of priority one recommendations at follow-up	90%	100%	98%	94%	69%	50
Implementation of all recommendations at follow-up	80%	91%	93%	90%	81%	76

## 5. PROGRESS AGAINST THE AUDIT PLAN

- 5.1 By 30 October 2022 **33%** (35% last year) of the 2022/23 planned audit days had been delivered and **10%** (12% last year) of the draft audit reports due for the year had been issued. The contractor is confident that the audit plan will be delivered by 31 March 2024.

## 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. (Please note that, although some of these audits were included in the annual Head of Internal Audit Report in September 2021, these have been included here as the Committee would not have seen the breakdown of the priority 1 and 2 issues for these.)

6.3

<b>Out of Borough Adult Social Care Placements (Limited Assurance)</b>
<b>Priority 1 Issues</b> <ul style="list-style-type: none"><li>• The Council did not have a process to communicate with and notify the host authorities for out of borough placements</li></ul>
<b>Priority 2 Issue</b> <ul style="list-style-type: none"><li>• For the one safeguarding concern relating to an out of borough placement reported April 2020 to July 2021 we were unable to evidence the actions to review and mitigate this safeguarding concern</li><li>• Examination of the records held for a sample of five out of borough placements found that in two cases there was delay in the approval of funding by the Funding Panel and Head of Service and that only two (of the three due) annual reviews had been completed.</li><li>• The 'Out of Area Services' and 'Generic Placement Process' standard operating procedures were last updated for 2015-2017 and since then had not been reviewed and updated to align with the current process.</li><li>• Discussion with the Head of Service for Adult Social Care established that the Council did not have a process to prepare the required contingency plans for clients placed out of the borough.</li></ul>

6.4

<b>Croydon Affordable Homes – Taberner House Contract Management (Limited Assurance)</b>
<b>Priority 1 Issues</b> <ul style="list-style-type: none"><li>• We asked for but were not provided with any evidence of how Hub Residential Limited was chosen as the developer for the Taberner House site</li><li>• We asked for but were not provided with payment requests submitted by Taberner House LLP to the Council in respect of the</li></ul>

development/construction costs of the Taberner House site.

- We could not be provided with a budgetary control statement monitoring development/construction costs of the Taberner House site
- The December 2020 cost centre summary spreadsheet (budget monitoring CAH Management) for Croydon Affordable Homes did not include a current budget and subjective code breakdown and therefore variance analysis against budgeted figures. We acknowledge we were informed that a full budget will be set for the financial year 2021-22.

**Priority 2 Issues**

- A copy of the First Supplemental to the Conditional Sale of Agreement could not be located in the Council's SharePoint website
- Valuation recommendations and payment notices numbered 26 to 28 could not be located in the Council's SharePoint site.

6.5

**Long Term Sick and Maternity Leave (Limited Assurance)**

**Priority 1 Issues**

- Risk assessments were not evidenced as completed for eight out of a sample of ten employees tested from the maternity leave group.

**Priority 2 Issue**

- Attendance review meetings were not evidenced as held for seven out of a sample of ten employees returning from sick leave.
- Return to work forms were not completed for 11 out of a sample of 15 employees tested.
- Medical certificates were not saved for ten out of a sample of 15 employees tested.

6.6

**Right to Work Checks (Substantial Assurance)**

**No Priority 1 Issue**

- There was a lack of evidence that copies of documents obtained when conducted RTW checks had been properly verified in line with Home Office requirements.

**Priority 2 Issue**

- Training for HR recruitment staff members on the revised RTW checks required for EEA nationals and Swiss Citizens from 1 July 2021 had not yet been provided.

6.7

<b>End to end Placement Process (including disabilities) (Substantial Assurance)</b>
<b>No Priority 1 Issues</b>
<p><b>Priority 2 Issues</b></p> <ul style="list-style-type: none"> <li>• Testing of a sample of 25 cases found two instances with delays (in excess of five months) in finalising Child &amp; Family Assessments, of which one was still in draft form at the time of the audit.</li> <li>• Testing of a sample of 25 cases found three instances where Child in Need reviews were not undertaken at the expected intervals, of which the longest interval without review was 11 months.</li> <li>• Testing the five instances, where the provision of a care package was agreed from the sample of 25 cases, found that there were issues with the timeliness of the set-up of payments in two cases.</li> </ul>

6.8

<b>Contract Management – Health and Work programme (Substantial Assurance)</b>
<b>No Priority 1 Issues</b>
<p><b>Priority 2 Issue</b></p> <ul style="list-style-type: none"> <li>• We asked for but could not be provided with a ‘master listing’ / ‘register’ of any ‘service’ complaints for the 2020 financial year to date. Additionally, review of the June, September, December 2019 and February 2020 MI reports that contained Reed's performance against the service standards noted that these reports did not indicate whether the complaints received by Reed had been responded to within the timeline stated in the complaints procedure</li> </ul>

6.9

<b>Capital Budgeting and Treasury Management (No Assurance)</b>
<b>No Priority 1 or 2 Issues</b>
<ul style="list-style-type: none"> <li>• Lack of engagement prevented audit from progressing</li> </ul>

6.10

<b>Parking Enforcement: Pay and Display (Limited Assurance)</b>
<p><b>Priority 1 Issue</b></p> <ul style="list-style-type: none"> <li>• The contract with cash collector, BDI Securities, was not provided during the audit. We were therefore unable to complete relevant testing and deliver the agreed scope for this audit.</li> </ul>

**Priority 2 Issues**

- The Reconciliation Policy is out of date alongside a lack of segregation when preparing and reviewing/ approving reconciliations of the cash collected by the contractor and the Council's system.
- Lack of supporting evidence regarding one of the selected samples for the testing of refunds paid to customers

6.11

**Service Based Budget Monitoring: Across the Organisation (Limited Assurance)****No Priority 1 Issues**

- There is a lack of guidance and training provided to budget holders in relation to budget setting and monitoring processes
- Based on interviews, 29% of the Budget Managers did not believe that they had sufficient financial information to discharge their duties. In addition, 57% of the Budget Managers suggested that timely financial information was not provided prior to any significant impact on their budget.

**Priority 2 Issue**

- 14% of the sample of Budget Managers interviewed did not know of the budget setting timetable along the appropriate level of input required.
- 14% of Budget Managers interviewed did not feel that they had appropriate consultations with the Central Finance Team prior to ratification of the budget.
- Agenda and actions arising from (monthly or quarterly) meetings between Budget Manager and Finance are not documented for future reference.

6.12

**Food Safety (Limited Assurance)****Priority 1 Issue**

- Insufficient food safety inspections had been conducted (based on figures at 25 February 2022) during 2021/22 to meet the requirements of the FSA Code

**Priority 2 Issue**

- Sample testing highlighted that food safety inspections were not being carried out in a timely manner

6.13

<b>Community Fund Contracts (Limited Assurance)</b>
<p><b>Priority 1 Issue</b></p> <ul style="list-style-type: none"> <li>Signed contracts were not held for two of the sample of five organisations tested. Both organisations receive funds in excess of £15k per annum and despite having no signed contract funds had been released to both of these organisations</li> </ul>
<p><b>Priority 2 Issue</b></p> <ul style="list-style-type: none"> <li>Contract monitoring meetings with grant recipient organisations were not recorded/minuted.</li> <li>Evidence of appropriate KPIs being set and monitored or end of project reports were not provided for three of the sample of ten grants selected.</li> </ul>

6.14

<b>Information Management (Limited Assurance)</b>
<p><b>Priority 1 Issue</b></p> <ul style="list-style-type: none"> <li>The Information Asset Registers (IAR) were not subject to regular review.</li> </ul>
<p><b>Priority 2 Issue</b></p> <ul style="list-style-type: none"> <li>The Information Management Team did not review consent records.</li> </ul>

6.15

<b>HRA Accounting (Limited Assurance)</b>
<p><b>Priority 1 Issue</b></p> <ul style="list-style-type: none"> <li>A lack of evidence existed to verify that discrepancies in reconciliations between the HRA Control Cash and the Ohms Cash Balance were being investigated and resolved</li> <li>Examination of the HRA recharges identified that the basis for calculating the recharges to the General Fund had not been reviewed in the current year. It was unclear from evidence retained when the last review was completed</li> </ul>
<p><b>Priority 2 Issue</b></p> <ul style="list-style-type: none"> <li>A review of the HRA Business Plan and the associated documentation found that performance against the business plan was not being evidenced as monitored and reviewed.</li> </ul>

6.16

<b>Fees and Charges (Limited Assurance)</b>
<b>Priority 1 Issue</b> <ul style="list-style-type: none"><li>• Fees and charges were not reviewed during 2019/20 and 2020/21</li><li>• Testing a sample of 152 fees and charges (out of 970) confirmed that proposed charges for 2021-22 had not been applied for 45 of these on the Council's website</li></ul>
<b>Priority 2 Issues</b> <ul style="list-style-type: none"><li>• There was a lack of an overarching policy or procedure notes relating to fees and charges.</li><li>• Internal Audit was unable to confirm whether 15 of the sample of 21 fees and charges (out of 970 fees and charges) were supported by an adequate information base for cost attribution because the named Lead Officers did not respond to Internal Audit's requests for evidence.</li><li>• Although requested, we were not provided with evidence of an action plan in response to the findings from the LG Futures benchmarking of fees and charges against other London local authorities.</li><li>• There was incomplete information in the master data listing for fees and charges.</li></ul>

6.17

<b>Leasehold Service Charges (Limited Assurance)</b>
<b>Priority 1 Issue</b> <ul style="list-style-type: none"><li>• An error was identified in the 2021/22 service charge calculation relating to the repairs and maintenance element of the service charge.</li></ul>
<b>Priority 2 Issue</b> <ul style="list-style-type: none"><li>• The departmental policy and procedures need to be reviewed and updated to reflect current practice and legislation.</li><li>• Webforms and guidance was unavailable for leaseholders wanting to raise comments, complaints and complements.</li><li>• Service charge calculations were only reviewed by a junior officer and evidence of this check was not recorded</li><li>• The major works consultation process was not available to leaseholders on the Council's website.</li></ul>

6.18

<b>Business Rates and Business Grants (Substantial Assurance)</b>
<b>No Priority 1 Issues</b>

**Priority 2 Issue**

- Monthly reconciliations between Northgate and General Ledger were not being undertaken.

6.19

**UASC – Value for Money (Substantial Assurance)****No Priority 1 Issues****Priority 2 Issue**

- Two instances were observed (from a sample of 33 payments towards placement of UASC) where payments for emergency clothing were not supported by receipts and prior agreement.
- Two instances were observed (from a sample of 12 payments to travel providers) where parking tickets totalling £120 were invoiced to (and paid by) the Council despite not being obliged to pay for parking tickets.

6.20

**Youth Offending (Substantial Assurance)****No Priority 1 or 2 Issues**

6.21

**Children with Disabilities - Placement Costs and Spend Review (Substantial Assurance)****No Priority 1 Issues****Priority 2 Issue**

- The Head of Social Work with Families and Children with Disabilities (CWD) did not consistently obtain and review monthly budget performance reports.

6.22

**CALAT (Croydon Adult Learning and Training) - Income generation and controls (Substantial Assurance)****No Priority 1 Issues****Priority 2 Issue**

- Examination of the payments due for a sample of ten learners found that three had only been paid after the corresponding courses commenced.

6.23

<b>Traffic Management (Substantial Assurance)</b>
<b>No Priority 1 Issues</b>
<b>Priority 2 Issue</b> <ul style="list-style-type: none"><li>• Sufficient evidence was not maintained of inspections.</li></ul>

6.24

<b>Pension Improvement Plan (Substantial Assurance)</b>
<b>No Priority 1 Issues</b>
<b>Priority 2 Issue</b> <ul style="list-style-type: none"><li>• The frequency of updates to the Pensions Committee and Board on the targets within the improvement plan was only on an annual basis.</li></ul>

6.25

<b>Reserves: General and Earmarked (Substantial Assurance)</b>
<b>No Priority 1 Issues</b>
<b>Priority 2 Issue</b> <ul style="list-style-type: none"><li>• Evidence of a Reserves Policy was not made available to Internal Audit.</li></ul>

6.26

<b>Community Equipment Service - Governance (Full Assurance)</b>
<b>No Priority 1 or 2 Issues</b>

6.27

<b>Housing Rents: Service Charge Calculations - (Tenant Service Charge) (Substantial Assurance)</b>
<b>No Priority 1 or 2 Issues</b>

6.28

<b>Saffron Valley Collegiate (Full Assurance)</b>
<b>No Priority 1 or 2 Issues</b>

6.29

<b>Purley Nursery School (Substantial Assurance)</b>
<b>No Priority 1 Issues</b>
<p><b>Priority 2 Issues</b></p> <ul style="list-style-type: none"> <li>• Only one reference was held by the school for one (a meal supervisor) of the three new starters sampled.</li> <li>• Evidence of appropriate medical clearance was not provided by the school for any of the sample of three new starters.</li> <li>• Examination of the supporting documents for a sample of 15 purchases found that six payments had purchase orders dated after the corresponding invoices.</li> <li>• Examination of the completed 'Croydon Schools Health &amp; Safety Questionnaire' by the school noted some 'red' and 'amber' status areas, which the school will need to address</li> </ul>

6.30

<b>Beaumont Primary School (Substantial Assurance)</b>
<b>No Priority 1 Issues</b>
<p><b>Priority 2 Issue</b></p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>

6.31

<b>Elmwood Junior School (Substantial Assurance)</b>
<b>No Priority 1 Recommendations</b>
<p><b>Priority 2 Recommendation</b></p> <ul style="list-style-type: none"> <li>• The Headteacher's pay was not reviewed by 31 December 2020 as required.</li> </ul>

6.32

<b>Gresham Primary School (Substantial Assurance)</b>
<b>No Priority 1 Issues</b>
<b>Priority 2 Issues</b>

- Sample testing of 15 purchases identified that there were four cases where purchase orders were not raised in advance of the corresponding invoices and there was no evidence available to demonstrate urgency
- Sample testing of 15 purchases identified that for 5 purchases, a goods check was not evidenced
- The Data Mapping Register has several incomplete fields
- Review of the school health & safety questionnaire completed by the school identified that, while the school had a good level of compliance, some gaps in compliance existed.

6.33

<b>Howard Primary School (Substantial Assurance)</b>
<b>No Priority 1 Issue</b>
<p><b>Priority 2 Issue</b></p> <ul style="list-style-type: none"> <li>• The school submitted a complete Health and Safety questionnaire. This identified some gaps in the school's compliance with Health and Safety requirements, relating to the lack of a glazing risk assessment, an inspection testing regime for work equipment not being in place and having the pressure systems serviced.</li> </ul>

6.34

<b>Rockmount Primary School (Substantial Assurance)</b>
<b>No Priority 1 Issues</b>
<p><b>Priority 2 Issues</b></p> <ul style="list-style-type: none"> <li>• The school did not have a formal 3-to-5-year finance strategy.</li> <li>• Internal audit reviewed the Health and Safety checklist which confirmed that, although general risk assessment is in place, the school did not have a Glazing Risk Assessment or Traffic Management Plan.</li> </ul>

6.35

<b>St John's C of E School (Substantial Assurance)</b>
<b>No Priority 1 Issues</b>
<p><b>Priority 2 Issues</b></p> <ul style="list-style-type: none"> <li>• The Terms of Reference for the Policy and Finance Committee were out of date and not consistent with the Finance Policy</li> <li>• Some Disclosure and Barring Service (DBS) checks for governors</li> </ul>

were not requested within 21 days of their appointment.

## **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 £368k for 2022/23 and there is adequate provision within the budget. The Finance team will need to ensure recommendations flagged by the internal audit are implemented to build a robust and efficient finance function.
- 8.2 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.

**Approved by** Lesley Shields, Head of Finance for Assistant Chief Executive and Resources on behalf of the Director of Finance.

## **9. LEGAL CONSIDERATIONS**

- 9.1 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.
- 9.2 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.
- 9.3 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.
- 9.4 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.

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

9.6 The contents of this report, and of the Internal Audit Report 1<sup>st</sup> April 2022 to October 2022 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.

**Approved by:** Sandra Herbert, Head of Litigation & Corporate Law, on behalf of the Director of Legal Services and Monitoring Officer.

## **10. HUMAN RESOURCES IMPACT**

10.1 There are no immediate human resources issues arising from this report for LBC employees or staff. Should any issues arise, these will be managed through the Council's relevant HR policies and procedures.

**Approved by:** Gillian Bevan, Head of HR Resources and Assistant Chief Executives on behalf of the Chief People Officer

## **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.

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

**BACKGROUND DOCUMENTS:** Internal Audit report for the period to 30 October 2022 (appendix 1)