Committee	Audit Panel	Item No.	7
Report Title	**Head of Corporate Resource's Annual Assurance Report for 2015/16**		
Contributors	**Head of Corporate Resources**		
Class	**Information**	Date	**8 June 2016**

1.   Purpose

1.1.   The purpose of this report is to present members of the Audit Panel with the annual opinion on the effectiveness of the Council's system of internal control from the Head of Corporate Resources, in his capacity as the Head of Internal Audit (HIA).

2.   Recommendation

2.1.   Members are asked to note the annual assurance report for 2015/16.

3.   Executive summary

Background

3.1.   This is a statutory report to be made annually by the Council's Head of Internal Audit.

Introduction

3.2.   The Public Statutory Internal Audit Standards (PSIAS) define the required contents of this Annual Assurance Report.

Opinion

3.3.   The opinion of the Head of Corporate Resources on the overall adequacy and effectiveness of the Council's risk management systems and internal control environment during 2015/16 is Limited (this is down from Satisfactory in 2014/15). The Schools opinion remains Satisfactory.

Qualifications to the opinion

3.4.   Sets out the circumstances to help place this opinion in the appropriate context. There are two qualifications to the opinion, the higher than usual number of changes to the Internal Audit plan and some weaknesses in Risk Management practices through the year.

Summary of work assurance work completed which the opinion is derived

3.5.   The internal audit plan 2015/16 initially had 85 pieces of audit work (59 Corporate and 26 Schools), not including follow-up reviews. By the end of the year this had decreased to 71 pieces of work (45 Corporate and 26 Schools).

3.6.   In respect of the corporate audits 13 of the 41 reports issued (32%) were with a negative opinion; split core 5 of 17 (29%) and non-core 8 of 24 (33%). The schools audits were 2 of 26 reports (8%) with a negative opinion.

3.7.   In addition, there were 16 corporate and two school follow-up reviews completed for the period.

Issues relating to the Annual Governance Statement

3.8.   One of the three improvement areas noted in the AGS is in respect of internal control. From the internal audit recommendations in 2015/16 the common or more significant areas noted for improvement were: Budget Pressures; ICT Infrastructure; Contract Management; Human Capital; and Financial Control.

Statement of compliance with the PSIAS

3.9.   The independent external review conducted in February 2016 confirmed that the Internal Audit Service complies with the Public Sector Internal Audit Standards.

Quality Improvement Programme for Internal Audit

3.10. The focus for 2016/17 is to embed the newly recruited internal audit team to deliver a value for money service, maintain quality, and improve the service impact with better knowledge and understanding of the Council's operations.

4.   **Background**

4.1.   The Accounts and Audit (England) Regulations 2015 states, "A relevant authority must 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".

4.2.   This report details the Head of Internal Audit's annual assurance opinion on the adequacy and effectiveness of the London Borough of Lewisham's internal control arrangements for the year from April 2015 to May 2016. This opinion and report contributes to the Council's Annual Government Statement (AGS).

4.3.   The Council's Head of Internal Audit is the Head of Corporate Resources who has operational responsibility for the in-house Anti-Fraud and Corruption Team (A-FACT), Insurance and Risk Management, Corporate Health & Safety, Procurement Support, Strategic Finance, Pension Fund, and Treasury Management. He is also the Deputy Section 151 Officer.

5.   **Introduction**

5.1.   The PSIAS states that the Head of Internal Audit must deliver an Annual Assurance report that can feed into the Council's AGS as part of the financial statements. The annual report must provide an opinion on the overall adequacy and effectiveness of risk management and control. In addition, the report must also include:

- a summary of the work that supports the opinion;
- the timeframe to which the opinion relates to;
- statement on conformance with the PSIAS;

- any scope limitations;
- disclosure and details of any qualification/s;
- consideration of related projects and other assurances providers;
- the risk / control framework used for the basis of the opinion; and
- any other issues that they are relevant to the governance statement.

6. Opinion

6.1. The Head of Internal Audit's opinion on the overall adequacy and effectiveness of the Council's risk management systems and internal control environment, including any qualifications to that opinion, is as follows:

6.2. "I have considered all of the work undertaken and reported on by the Internal Audit Service, Anti-Fraud and Corruption Team and other sources of assurance available to the Council for the audit year 2015/16. In my opinion, **Limited** assurance can be placed on the adequacy and effectiveness of Council's corporate internal controls framework in place and **Satisfactory** assurance can be placed on the Schools internal controls framework".

6.3. This opinion is expressed using the same scale used for internal audit report opinions. The scale ranges from Substantial to Satisfactory, through to Limited and No Assurance. Definitions are provided at Appendix 4.   The opinion for the 2015/16 corporate audits continues the direction of travel noted in 2014/15 and is down from last year's Satisfactory opinion.

6.4. I was part of the Annual Governance Statement (AGS) working party through 2015/16. The working party comprises a group of senior officers, chaired by the Head of Law, responsible for preparing and reviewing the Council's AGS.

6.5. The AGS has been updated and actions mentioned throughout the year. I am satisfied that the content of the statement is accurate and its completion has complied with the relevant CIPFA guidance. Issues that I judged relevant, such as the effectiveness of internal control, have been considered by the group and included where necessary.

7. Qualifications to the opinion

Internal Audit

7.1. Work continues to stabilise and improve the Internal Audit Service to deliver value for money for the Council. The plan for 2015/16 was mainly delivered by contractors; via the London Borough of Croydon framework with Mazars for corporate audits; and a service level agreement with the Royal Borough of Greenwich for school audits.

7.2. These arrangements have put a cost pressure on delivery of the plan. This, combined with reorganisations and the state of continuous change for a number of key services across the Council, has made the audit planning more difficult. And resulted in several changes to the plan and more audits than usual being cancelled or deferred than usual through the year.

7.3. For example; when it was announced that Children's Services were to be inspected by OFSTED a number of planned audits in this area were deferred to avoid duplication; and pending the move to the new IT shared service with

Brent limited IT audits were undertaken as the results for 2015/16 were already known based on 2014/15 work.

Risk Management

7.4. There was an audit of Risk Management during 2015/16, which resulted in a satisfactory opinion for the process. However, as noted by the Internal Control Board (ICB); there were some weaknesses and delays through the year in management's updating of risk registers, completing service plans and undertaking appraisals with staff. Work is underway to address these challenges with a new 360 degree appraisal process for senior managers introduced for 2015/16 and a refreshed corporate focus on setting, communicating and monitoring objectives for 2016/17.

7.5. The risk of not being able to fully rely on the service plan objectives and risk register assessments is that internal audit reviews may not be directed where most needed and of most potential value to the Council.

7.6. The mitigation actions in 2015/16 have included; having the Head of Corporate Resources involved in a range of senior management functions so aware of the strategic direction for the Council; planning meetings with Heads of Services; monitoring sector and professional horizon-scanning reports; experienced auditor knowledge; reviewing committee reports; and keeping up to date with events / legislation that affect Local Government.

8. **Summary of assurance work from which opinion is derived**

Delivery of the Audit Plan

8.1. The internal audit plan 2015/16 initially had 85 pieces of audit work (59 Corporate and 26 Schools), not including follow-up reviews. By the end of the year this had decreased to 71 pieces of work (45 Corporate and 26 Schools).

8.2. The changes to the plan during the year were as follows:

8.3. Additional Audits - New

- Arrangement for 18+ Children in Care – Requested by Head of Service
- Processes for Payment to Main Providers
- Troubled Families Claim (Last one of Phase 1)
- Section 47 Referrals and Data Quality (see also cancelled / deferred)

8.4. Additional Audits – Split

- COM / CYP Contract Management Audits split from two to four audits
    - Learning and Disability Respite
    - Employer Agents – Pupil Placements
    - Speech Language and Therapy
    - Domiciliary Care Agencies

- Data Protection Act / Freedom of Information Act (DPA / FOIA) - split into two
    - Data Protection Act Compliance
    - Public Access to Information

8.5. Cancelled / Deferred

- Audits cancelled due to internal audit resources
    - Archiving
    - Cultural Change and Managing Resistance
    - Dedicated Transformation Team / Lewisham Future Board
    - Monitoring of ad-hoc payments to children in care and providers (non-key controls)
    - Multi Agency Partnership Working
    - Private Sector Housing Agency (PHSA)
    - Procurement Process and Contract Register
    - Safeguarding Board – CYP – Serious Case Review Framework
    - Safeguarding and Assurance Adults – Proactive monitoring of referrals
    - Savings Proposals v's Results
    - School Policies – Thematic Review
    - School Improvement Inspections Reports
    - Special Educational Needs (SEN) Service – Post reorganisation
    - The Care Act 2014 – Changes to Strategy and Processes
    - Voluntary and Community Sector Contracts

- Audits no longer required
    - Anti-Social Behaviour Service (no longer a single service)
    - Troubled Families Programme – Annual Grant Framework no longer a requirement to perform an annual audit.

- IT Audits – Cancelled due to timing and contractor resources
    - Mobile / Home Working Access
    - Monitoring of Breaches, Spam Mail, Malware and Denial of Service Attacks
    - Public Sector Network Compliance (PSN)

- Section 47 Referrals and Data Quality – cancelled from the 15/16 audit plan as key staff not available.
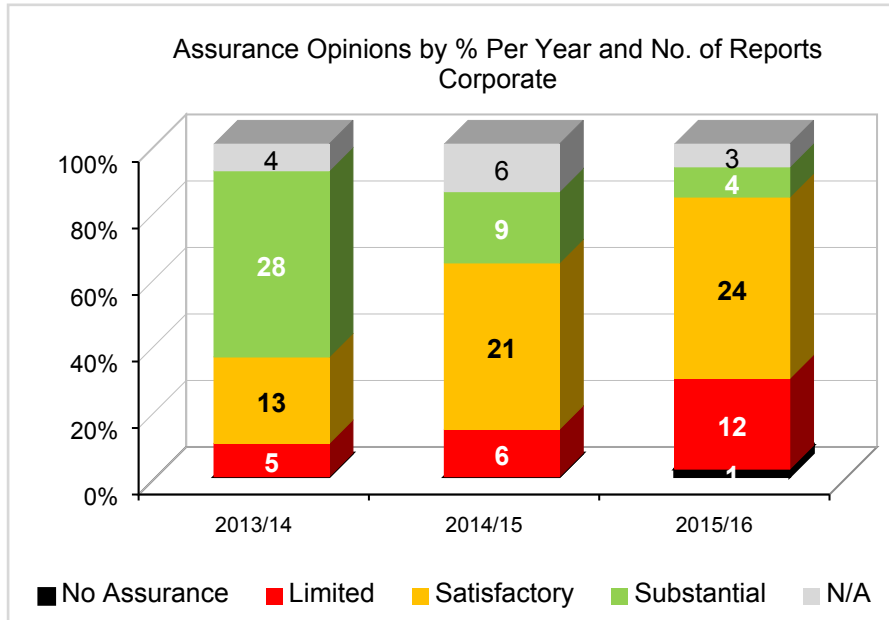
8.6. The graph below represents the percentage of audit assurance opinions (with the number of reports issued) for corporate audits issued. The definitions of assurance opinions – Substantial, Satisfactory, Limited and No Assurance – can be found at Appendix 4. N/A is for non-assurance work such as grants or consultancy reviews.

8.7. While some work is still at draft report stage, with the exception of one corporate audit, all audit assurance opinions are reported and have therefore been considered in preparing this report. It is not expected that on completion of the final audits that there will be any material changes to impact the assurance opinion as presented.

8.8. The results of the corporate internal audit work for 2015/16 has seen the number and proportion of Limited assurance reports issued continue to increase. This is in line with the previous Head of Audit assurance opinion,
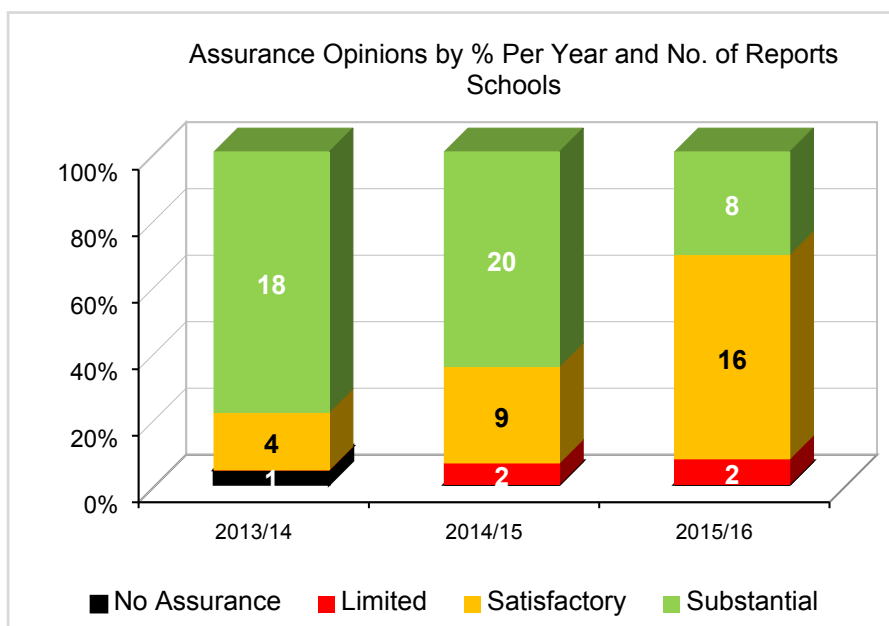
which stated last year overall opinion was satisfactory, and heading towards a Limited opinion.

8.9.   In respect of the corporate audits 13 of the 41 reports issued (32%) were with a negative opinion; split core 5 of 17 (29%) and non-core 8 of 24 (33%). The schools audits were 2 of 26 reports (8%) with a negative opinion.

Assurance Opinions by % Per Year and No. of Reports Corporate

Year	No Assurance	Limited	Satisfactory	Substantial	N/A
2013/14		5	13	28	4
2014/15		6	21	9	6
2015/16	1	12	24	4	3

8.10.   The graph below is the same as the above, but presents the school audit position.

8.11.   The number of Limited / No Assurance school reports remain low. The number and percentage of satisfactory assurance reports issued has increased since last year, but this is still a positive overall assurance position.

Assurance Opinions by % Per Year and No. of Reports Schools

Year	No Assurance	Limited	Satisfactory	Substantial
2013/14	1		4	18
2014/15		2	9	20
2015/16		2	16	8

Core Financial Systems

8.12. Core financial systems are the key financial areas within the council. They are audited on an annual basis. The table below shows a comparison of assurance opinions for the last three years.

Key

| SUB | Substantial | SAT | Satisfactory | LTD | Limited | NAS | No Assurance |

| ⬈ | Improved since last year | ⬌ | Same as previous year | ⬊ | Deteriorated since last year |

Table

Core financial system	2013/14	2014/15	2015/16	DoT
1. Accounts payable	SUB	LTD	NAS	Draft
2. Accounts receivable	SUB	LTD	LTD	⬌
3. Banking	SUB	LTD	LTD	⬌
4. Client contributions for residential & domiciliary care	SUB	LTD	LTD	⬌
5. Payments to Adult care providers	SUB	SAT	LTD	Draft
6. Main accounting	SUB	SAT	SAT	⬌
7. Capital programme and expenditure	SUB	SAT	SAT	⬌
8. Budget control and monitoring	SUB	SAT	SAT	⬌
9. Business rates (NNDR)	SUB	SUB	SAT	⬊
10. Council tax	SUB	SUB	SAT	⬊
11. Direct payments	SUB	LTD	SAT	Draft
12. Housing benefit and CTRS	SUB	SAT	SAT	⬌
13. Looked after children payments	SUB	SAT	SAT	Draft
14. Non-current (fixed) assets	LTD	LTD	SAT	Draft
15. Pensions	SUB	SAT	SAT	⬌
16. Payroll	SAT	SAT	SUB	⬈
17. Treasury management	SUB	SUB	SUB	⬌

8.13. The 'No Assurance' audit opinion for a core financial audit is still at draft, and maybe subject to change.

8.14. There were five rather than six core financial audits with Negative audit opinions in 2015/16. However, these include the key core financial areas (Accounts Payable, Accounts Receivable and Banking) with negative opinions for the second year in a row.

Recommendations

8.15. When internal audit make recommendations to management, they are categorised as 'High', 'Medium' or 'Low'. Definitions of these categories are provided at Appendix 4.

8.16. Officers are responsible for updating the progress on implementation of their Corporate High and Medium recommendations to an internal SharePoint site.

8.17. Schools are unable to use this internal site and have to provide updates manually to the Children and Young People (CYP) directorate.

8.18. Internal audit reports are given quarterly to the Audit Panel and the Internal Control Board (ICB) on the status of recommendations. The status includes:

- No. of recommendations overdue;
- No. of recommendations with two or more changes of due date;
- No. of recommendations reopened at the follow-up review; and
- No. of recommendations closed since the final report.

8.19. The graph below presents the percentage (and number) of recommendations made by category for all corporate internal audits (including drafts). It shows that there is an increase in percentage of High and Medium recommendations made during 2015/16.

Percentage and No. of Recs by Category and Year Corporate
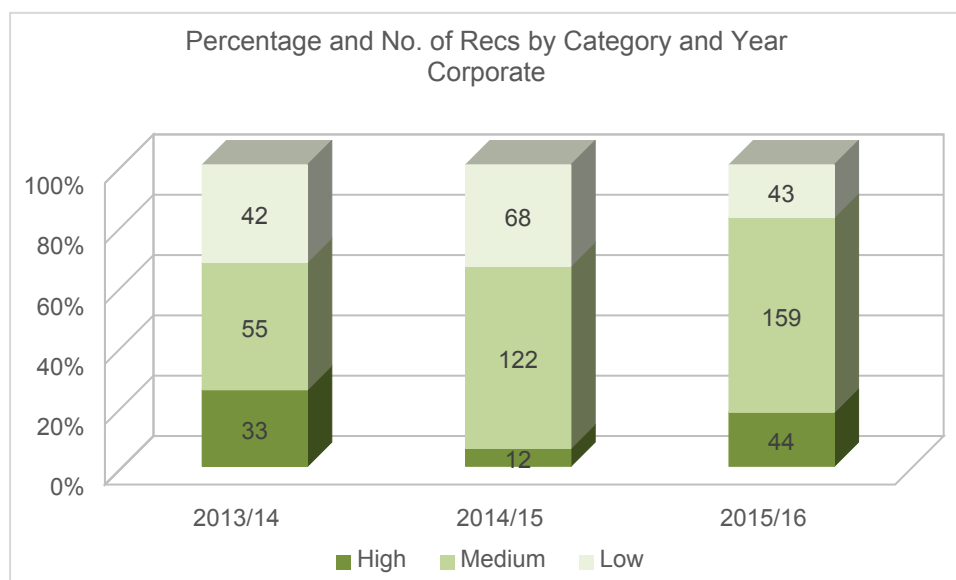
8.20. The graph below is the same as the above, but for schools. This shows that percentage has remained pretty even for the last two years.

Percentage (and No.) of Recs by Category and Year
Schools
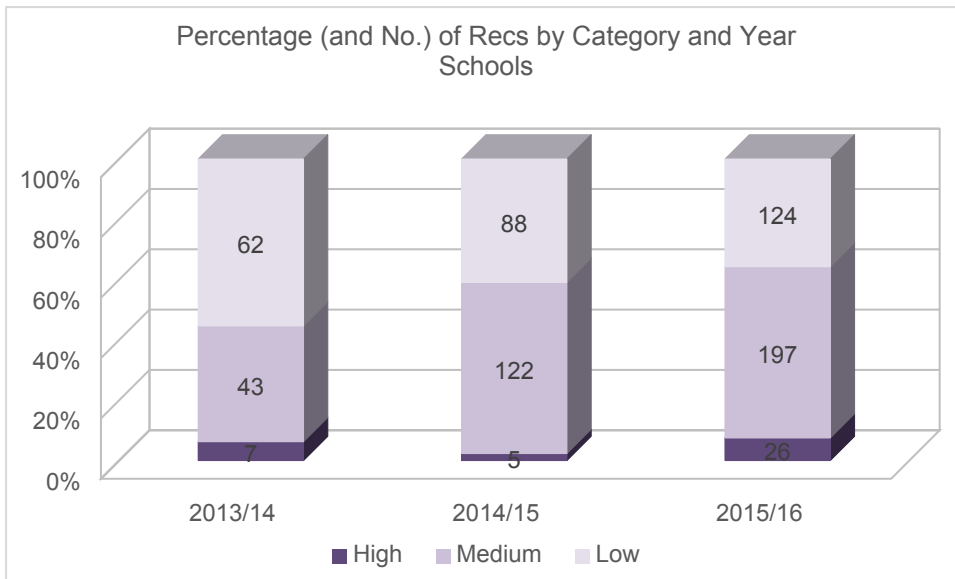
Follow-ups

8.21. Internal audit follow-up on all Corporate High and Medium recommendations, normally nine months after the final report. The exceptions to this are for the core financial reviews, which are reviewed at the next annual audit.

8.22. For schools, only those audits with a Limited or No Assurance opinion are followed-up. There were 16 corporate and two school follow-up reviews completed for the period.

8.23. The table below shows the number of recommendations reviewed and their status at the time of the follow-up review.

Implemented	In Progress	Superseded	Not Implemented	Total Recs
64	29	-	8	**101**
63%	29%	-	8%	**%**

8.24. Internal Audit reports the progress of implementing these recommendations to the Audit Panel and the Internal Control Board (ICB) on a regular basis. A list of follow-up reviews conducted can be found in Appendix 2.

Anti-Fraud and Corruption Team (AFACT)

8.25. AFACT is responsible for conducting and managing fraud investigations internally and of those using Council services. This work is conducted with support from the Council's Human Resources and Legal Services teams. This work arises from the need for the Council to ensure confidence in the administration of public funds.

8.26. This recognises that the undermining of public confidence that can result from the discovery of a fraudulent or corrupt act can inflict much greater and more widespread damage than just the act itself.

8.27. The number and nature of investigations concluded in the year and actions taken are reported to the ICB and Audit Panel quarterly in the year. In 2015/16 the Council was also independently inspected and was given a positive opinion for its arrangements for conducting surveillance work under the RIPA powers.

Risk Management

8.28. Corporate Resources is responsible for ensuring the Council has an effective risk management strategy and policy in place. These were reviewed at ICB in 2015/16 in light of some of the challenges to maintaining risk registers reported by the Risk Management Working Party (RMWP). In addition, Directorate Management Teams (DMT) and the Executive Management Team (EMT) meet regularly to discuss risk, review the finances and monitor performance. Thereby enabling urgent matters to be escalated for action promptly outside the formal risk reporting cycle.

8.29. A more streamlined and structured approach was agreed for service plans and Directorate registers for which templates have been designed for use in 2016/17. The strategy and policy documents will now be updated to reflect these changes and put to ICB and Audit Panel for member approval in 2016/17.

8.30. In addition to the risk registers for management purposes, the Mayor and Cabinet and Members are appraised on risk management via the monthly management report which clearly maps risks to the Council's priorities and provides a narrative on changes to existing or emerging key risks.

8.31. Through the actions note above the Council continues to adjust its approach to risk management, seeking to maintain the quality of risk reporting in a manner that is proportionate to the management time available to sustain this work. In addition to the internal audit of the risk management process in 2015/16 a risk management maturity audit is in the plan for 2016/17 to assess the new arrangements.

Other sources of assurance

8.32. Evidence for the effective mitigation of risk and focus on improving internal control comes from other sources than the work of internal audit. These are taken into consideration for preparing the annual assurance opinion and planning the work of internal audit for future years. For example:

8.33. Internally service planning, performance reporting and financial monitoring are tools available to management. In 2015/16, as noted by ICB, the approach to service planning was not consistent across services, budget monitoring had some re-occurring audit recommendations and the CYP OFSTED inspection made recommendations in respect of performance management. In addition the level of H&S incidents reported and motor vehicle insurance claims have been higher than usual. These are all areas for management attention and improvement going forward.

8.34. Externally inspections and accreditation reviews and statutory transparency reporting requirements are helpful measures to assess the effectiveness of

service practice and performance. In 2015/16, from the relevant bodies, the Council received positive results from its legal services accreditation, RIPA inspection, and an extension to its Public Sector Network certificate. However, the OFSTED review of children's services concluded with 'needs improvement', the Council chose to allow its Investors in People accreditation to lapse, and performance around timely Freedom of Information and handling of complaints fell off considerably at the turn of the year (although now returning to be back on track).

9.   Issues relevant to the Annual Governance Statement (AGS)

9.1.   From a review of the internal audit recommendations made in 2015/16 some common areas for improvement around internal controls were noted. This does not mean they are wrong all of the time everywhere. However, these points were noted through more than one audit or source of assurance during the year.

Budget Pressures

9.2.   Across the Council, services are continuing to work to find ways of operating with reduced budgets. This has resulted in controls being either:

- reduced, e.g. checks being done quarterly rather than monthly;
- transferred e.g. contracted out but with insufficient contract monitoring over finances or outputs/outcomes; or
- non-compliance e.g. purchasing without obtaining correct quotes / tendering.

ICT Infrastructure

9.3.   The ICT infrastructure during 2015/16 was not always fit for purpose. This resulted in:

- Software applications suffering considerable downtime;
- Inability to reconfigure or procure digital ways of working to help with control improvements or efficiencies;
- Antivirus / cyber security not up to date or not in place thereby putting the Council at risk from outside threats; or
- ICT kit not being refreshed and therefore operating very slowly resulting in considerable loss of productivity.

Contract Management

9.4.   The Council does not always prioritise the resources to ensure effective contract management arrangements are in place and value for money is being achieved. While the contracting out services may appear to be a budget / cost saving decision, without proper monitoring of the contract and retained risks it can end up being more costly in the long run.

Human Capital

9.5.   The Council in 2015/16 completed its third voluntary severance scheme in five years and continues to implement a high number of service reorganisations associated with savings proposals. This continues to throw up gaps in the effective operation of controls where key experienced and knowledgeable members of staff leave.

9.6. This situation is exacerbated where internal audit is routinely identifying procedures and processes not being updated to reflect new ways of working and to help the transfer of knowledge and learning.

Financial control

9.7. From a core financial perspective, Accounts Payable and Accounts Receivable are the main transaction areas and impact all parts of the Council operating efficiently.

- Accounts Receivable – findings included the suspense account not cleared in a timely manner. Officers are able to raise and cancel invoices without a segregation of duties control. There is no automatic notification of breaks in instalments and the removal of reminder letters (dunning process) is not monitored to ensure prompt collection of debts.

- Accounts Payable – findings included changes to suppliers are not being reviewed or there is no audit trail to identify what changes have been made. There is no dual control in the changes to supplier details. Exception reports on duplicate payments or high value payments are not run. There is not always approval for payment evidenced from a feeder system or manual payments. Some payments where there should be a purchase order are being processed as non-purchase orders (i.e. not shown as a commitment to spend). Delays in paying suppliers (i.e. over the 30 days threshold). Absence of routine data cleansing work, e.g. to review for duplicate suppliers.

9.8. The key risks being uncollected income or payment of monies not due, abuse of public funds, poor decision making based on weak budget forecasting and monitoring information, and reputational harm with suppliers and customers.

10. Statement of compliance with Public Sector Internal Audit Standards (PSIAS)

10.1. The standards require an external independent review of the internal audit service at least every five years. The internal audit service's external review took place in February 2016 by NHS Bart's internal audit service, London Audit Consortium (LAC).

10.2. LAC confirmed that the Internal Audit Service complied with the PSIAS. Recommendations made by LAC were made on how to improve the service, but the implementation of these are not mandatory to comply with the PSIAS. The detailed recommendations and proposed actions in response are set out at Appendix 3 to this report.

10.3. The recommendations, where relevant, are also included in the Quality Improvement Plan (Section 11).

11. Quality improvement Plan (QIP) for Internal Audit.

11.1. Taking the recommendations made during the PSIAS assessment into account, the Internal Audit Service is pressing ahead with a restructure to recruit more in-house resource. This is partly a cost saving measure and a

means to ensure better retained organisational knowledge to help support and contribute to the on-going change being driven through by management.

11.2. The emphasis for 2016/17 is to embed the team, updated working papers, and set revised key performance indicators before considering introducing trainee positions in 2017/18.

12. Role of the Head of Internal Audit

12.1. CIPFA Statement on "The role of the Head of Internal Audit in public service organisations, 2010" state that the Head of Internal Audit role in a public service organisation is based on five principles:

1) Championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and
2) Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.
3) Must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;
4) Must lead and direct an internal audit service that is resourced to be fit for purpose; and
5) Must be professionally qualified and suitably experienced

12.2. The annual review of the Head of Internal Audit concluded that all of the above principles were met.

13. Legal Implications

13.1. There are no legal implications arising directly from this report.

14. Financial Implications

14.1. There are no financial implications arising directly from this report.

15. Equalities Implication

15.1. There are no specific equalities implications arising directly from this report.

16. Crime and Disorder Implications

16.1. There are no specific Crime and Disorder implications arising directly from this report.

17. Environmental Implications

17.1. There are no specific environmental implications arising directly from this report.

18. Background Papers

18.1. Internal Audit and A-FACT papers to the Audit Panel throughout 2015/16.

For queries on this report, please contact the Head of Corporate Resources on 020 8314 9114 or by email at david.austin@lewisham.gov.uk

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16

Corporate Audits

Lead Dir.	Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
CUS	Accounts Payable 2015/16 (Core Financial Audit)	No Assurance	6	4	-	Set up of new suppliers, Payments, Reconciliations, and Performance Indicators	Draft
CUS	Accounts Receivable 15-16 (Core Financial Audit)	Limited	2	4	1	Completeness of income, Documentation and Authorisation, Income recording and Debt Recovery	15/01/16
CUS	Banking 15/16 (Core Financial Audit)	Limited	1	3	1	Payments, Cheque Printing and Security, Feeder systems (access) and Reconciliations	07/03/16
CUS	Client Contributions for Care Provision 15/16 (Core Financial Audit)	Limited	2	8	1	Eligibility and Financial Assessments, Recovery of Client contributions and Deferred Contribution Scheme	01/04/16
CUS	Backup and BCP for Adult Social Care System	Limited	2	1	-	Backups and Disaster Recovery Plan (DRP) and Business Continuity Plan (BCP)	04/04/16
COM	Learning and Disability Respite – Contract Management	Limited	-	8	-	Contract and Contract Variations, Payments, Contract Monitoring and Management Reporting.	14/03/16
CYP	Children's Centres – Contract Management	Limited	1	5	2	Contract and Contact Variation, Payments, Monitoring and Reporting	14/04/16
RRE	Commissioning and Procurement Board	Limited	1	6	-	Governance, Reporting, Monitoring and Adherence to the OGC gateway process,	04/05/16
RRE	Adherence to the Local Transparency code 2014	Limited	1	2	-	Publishing and Verification of Data	03/05/16
COM	Public Health – Statutory Services	Limited	2	4	-	Contract Formalities, Budgetary Control, Management Information and Reporting	Draft
COM	Better Care Fund	Limited	-	10	1	Governance and Risk Management, Performance Management and Data Quality, Financial Structure	27/05/16

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16

Lead Dir.	Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
COM	Payment to Adult Care Providers (**Core Financial Audit**)	Limited	-	10	2	DPA and Statutory Requirements, Set up of provider payments, Payments, Budgetary Control	27/05/16
CUS	Housing – Bed and Breakfast, Hostels and Temporary Accommodation	Limited	1	5	1	Allocation of temporary Accommodation, Charging and collection of rents and rates, Payments to Landlords	**Draft**
RRE	Budget Monitoring 15/16 (**Core Financial Audit**)	Satisfactory	-	3	1	Budget Setting, Loading and Virements, Budgetary Controls, and Management Reporting	01/03/16
CUS	Business Rates (NNDR) 15/16 (**Core Financial Audit**)	Satisfactory	1	-	2	Setting of the Business rates, Billing, Liabilities, Discounts, Reliefs and Collection Recovery and Enforcement	07/03/16
RRE	Capital Expenditure 15/16 (**Core Financial Audit**)	Satisfactory	-	1	-	Project Governance and Management, Payments, and Programme Budget and Expenditure Monitoring	22/03/16
CUS	Council Tax 15/16 (**Core Financial Audit**)	Satisfactory	1	-	2	Setting of the Council Tax, Billing inc, Write offs, Refunds, Discounts, Reductions, Disregards and Liabilities, Valuation Office List and Data Protection	07/03/16
CUS	Housing Benefit and Council Tax Reduction Scheme (**Core Financial Audit**)	Satisfactory	-	4	2	Applications, Payments, Overpayment, Debt Recovery, System Reconciliation and Exception Reporting	21/04/16
RRE	Main Accounting (**Core Financial Audit**)	Satisfactory	-	2	3	Financial Systems Administration, Feeder Systems, Journals and Reconciliations and Final Accounts	16/02/16
RRE	Non-Current Assets 15/16 (**Core Financial Audit**)	Satisfactory	-	2	2	Asset Management, Transfer of assets, and Reconciliation	25/04/16
COM	Direct Payments 15/16 (**Core Financial Audit**)	Satisfactory	-	4	1	Assessment and Payments, Utilisation Monitoring, and Budget Monitoring	24/05/16

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16

Lead Dir.	Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
CYP	Payments to Child Care Providers and Foster Carers (**Core Financial Audit**)	**Satisfactory**	1	5	1	Payments, Budgetary Control, Exception Reporting	Draft
RRE	Pensions 15/16 (**Core Financial Audit**)	**Satisfactory**	-	4	-	Governance Arrangements, Contributions and Payables, Investments and Management Fees and Reconciliation	01/04/16
RRE	Corporate Health and Safety Framework	**Satisfactory**	-	4	5	Training and Communication, Risk Mapping, Audits and Inspections and Management Reporting	23/09/16
RRE	Risk Management	**Satisfactory**	-	3	1	Risk Identification and Evaluation Process, and Risk Monitoring and Management Reporting	17/02/16
CUS	Housing Register and Offers	**Satisfactory**	1	2	1	Housing applications, Bidding process and Offers	11/04/16
CUS	Recycling and Incineration Arrangements – Contract Monitoring	**Satisfactory**	-	3	1	Contract and Contact Variation, Payments, Monitoring and Reporting	10/11/15
CUS	Registrars	**Satisfactory**	-	3	1	Income and Reconciliations, Stock Control, Performance Monitoring and Customer Satisfaction	16/10/15
COM	Domiciliary Care Agencies – Contract Monitoring	**Satisfactory**	-	5	1	Contract and Contact Variation, Payments, Monitoring and Reporting	22/02/16
CUS	Public Access to Information (inc Freedom of Information	**Satisfactory**	-	7	1	FOIA / EIR requirements and ICO recommendations, Access to information and exemptions and ICO codes of practice	04/05/16
CUS	Data Protection Act – Compliance	**Satisfactory**	-	6	-	DPA and ICO recommendations and DPA requests	04/05/16
CYP	Leaving Care (18+ Arrangements)	**Satisfactory**	1	3	1	Assessment of Needs and Pathway plan, placement for housing, Monitoring of aftercare support	Draft
CYP	Employer Agents- Pupils Places Programme – Contract Monitoring	**Satisfactory**	1	4	2	Contract and Contact Variation, Payments, Monitoring and Reporting	20/05/16
RRE	Payroll 15/16 (**Core Financial Audit**)	**Substantial**	-	1	1	Starters and Leavers, Benefits, Deductions, Amendments and Payments	11/04/16

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16

Lead Dir.	Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
RRE	Treasury Management 15/16 **(Core Financial Audit)**	Substantial	-	2	-	Cash Flow Forecasting, Investments and Loans Recording, Unauthorised Access and Performance Monitoring and Reporting	09/02/16
CUS	In-house Bailiff Service / Enforcement Agency	Substantial	-	1	-	Recovery process including Seizing and Selling of Goods and Cash Payments, Transfer of Cases to External Bailiffs and Complaints Process	01/03/16
CYP	Speech and Language Therapy – Contract Management	Substantial	-	2	-	Contract and Contact Variation, Payments, Monitoring and Reporting	20/05/16
CYP	Troubled Families Programme – Claim Submissions (Phase 1 last claim)	Grant	-	-	-	DCLG require internal audit to sample check the grant claim	Throughout the year
CYP	Troubled Families Programme – Claim Submissions (Phase 2 claims for year)	Grant	-	-	-	DCLG require internal audit to sample check the grant claim	Throughout the year
COM	Food Safety, Hygiene and Standards	Satisfactory	1	2	-	Food Safety, Hygiene and Standards arrangements, Enforcement of the Food Safety Act, Budget and Performance Reviews	27/05/16
RRE	Anti-Fraud and Corruption Team (AFACT)	Satisfactory	-	2	3	TBC	Draft
CUS	Appointeeships, Deputyships and Safeguarding of Client Assets	Satisfactory	1	3	1	Application and eligibility of appointeeships and Deputyship, income and expenditure, safeguarding of client assets	27/05/16
CUS	Disaster Recovery and Business Continuity Plans	Satisfactory	1	2	-	DR / BCP planning, BCP returns, Property Inspections, Emergency Planning Exercise	Draft
CYP	Processes for Payments to Main Care Providers	Consultancy	2	4	-	Compliance with Organisational and Management requirements, Set up and termination of commitments	Draft
RRE	PFI Monitoring	TBC	Fieldwork in progress / with DP			Contracts, Variations and Additions, Governance arrangement, Contract monitoring and report and payments	TBC

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16

School Audits

Lead Dir.	School	Assurance level given	H	M	L	Areas / Risks tested during the review	Date of final report
SCH	Watergate	Limited	1	12	10	Procurement, Banking, Budget Monitoring, Governance, Recruitment, Payroll, DPA, Income and Asset Management	11/08/15
SCH	Adamsrill School	Limited	1	15	6	As above	26/08/15
SCH	Abbey Manor College	Satisfactory	-	11	10	As above	16/09/15
SCH	Athelney Primary School	Satisfactory	-	7	1	As above	10/03/16
SCH	Bonus Pastor RC College	Satisfactory	1	8	10	As above	15/12/15
SCH	Chelwood Nursery	Satisfactory	1	12	3	As above	22/10/15
SCH	Deptford Green Secondary	Satisfactory	-	8	4	As above	15/10/15
SCH	Edmund Waller Primary	Satisfactory	1	8	-	As above	18/09/15
SCH	Forest Hill Secondary	Satisfactory	-	11	5	As above	25/02/16
SCH	Holbeach Primary	Satisfactory	-	10	1	As above	03/02/16
SCH	Kender Primary	Satisfactory	-	7	2	As above	06/07/15
SCH	Launcelot Primary	Satisfactory	-	7	4	As above	23/02/16
SCH	Our Lady and St Philip Neri RC Infant and Jnr	Satisfactory	3	9	9	As above	04/02/16

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16

Lead Dir.	School	Assurance level given	H	M	L	Areas / Risks tested during the review	Date of final report
SCH	Trinity All Through CE Secondary	Satisfactory	2	6	2	As above	13/11/15
SCH	Sedgehill Secondary	Satisfactory	3	7	-	As above	26/04/16
SCH	Kilmorie Primary	Satisfactory	1	11	1	As above	Draft
SCH	Prendergast Hilly Fields College (Secondary)	Satisfactory	2	9	-	As above	Draft
SCH	Prendergast Ladywell Fields College (Secondary)	Satisfactory	2	8	1	As above	Draft
SCH	Addey & Stanhope Secondary	Substantial	-	2	2	As above	19/08/15
SCH	Conisborough College - (Colfe's Associated School)	Substantial	-	2	13	As above	15/10/15
SCH	Fairlawn Primary	Substantial	-	4	-	As above	02/10/15
SCH	Forster Park Primary	Substantial	-	5	10	As above	27/01/16
SCH	St Mary Magdalen's Catholic	Substantial	-	5	1	As above	02/07/15
SCH	St Michael's CE Primary	Substantial	-	4	8	As above	19/10/15
SCH	Sydenham Secondary	Substantial	-	6	7	As above	27/11/15
SCH	Prendergast Vale College (Secondary)	Substantial	-	3	1	As above	Draft

Appendix 2 – Follow up Review Conducted in 2015/16

Lead Dir.	Audit Followed –Up	Original Opinion	Original Final Rpt Date	Follow-up Rpt Date	Implem-ented	In Progress	Supers-eded	Not Implem-ented	Total
RRE	Insurance -In house Processes 14/15	Substantial	08/06/15	19/01/16	1	1	-	-	2
RRE	Project Management 13/14	Satisfactory	16/07/15	26/02/16	-	3	-	2	5
RRE	Budget Setting and Monitoring 14/16	Satisfactory	29/04/15	01/03/16	3	3	-	-	6
RRE	Main Accounting 14/15	Satisfactory	18/06/15	16/02/16	2	1	-	-	3
RRE	Treasury Management 14/15	Substantial	11/06/15	09/02/16	1	1	-	-	2
RRE	Capital Expenditure 14/15	Satisfactory	24/06/16	22/03/16	4	1	-	-	5
RRE	Pensions 14/15	Satisfactory	31/03/16	01/04/16	7	1	-	1	9
RRE	Payroll 14/15	Satisfactory	12/05/16	11/04/16	7	1	-	-	8
RRE	Programme and Project Management 14-15	Satisfactory	29/06/15	11/04/16	3	1	-	-	4
CUS	Accounts Receivable 14/15	Limited	18/06/15	15/01/16	3	3	-	1	7
CUS	Housing Benefit and CTRS 14/15	Satisfactory	30/06/15	21/04/16	1	1	-	1	3
CUS	Banking 14/15	Limited	10/06/15	07/03/16	2	-	-	-	2
CYP	School Catering Contract 13/14	Satisfactory	09/07/14	11/02/16	4	1	-	-	5
CYP	Payments for 2 to 4 Year Olds 14/15	Substantial	24/06/15	07/03/16	-	1	-	1	2
COM	Public Health Contracts	Satisfactory	26/05/15	14/04/16	1	2	-	1	4

Appendix 2 – Follow up Review Conducted in 2015/16

Lead Dir.	Audit Followed –Up	Original Opinion	Original Final Rpt Date	Follow-up Rpt Date	Implem-ented	In Progress	Supers-eded	Not Implem-ented	Total
COM	Client Contributions for Care Provision 14/15	Limited	30/06/15	01/04/16	2	2	-	1	5
SCH	Elfrida Primary School 2014/15	Limited	05/03/15	14/12/15	13	1	-	-	14
SCH	St Bartholomew's CE Primary 2014/15	Limited	15/09/14	02/07/15	10	5	-	-	15

Appendix 3 – Action Plan for Improvements for the Internal Audit Service

Recommendation	Action Plan	Responsible Officer	Due by
1. Mazars to share declarations of interest with LBL or complete LBL pro-formas	Agreed. All current contractor staff who work on a regular from 2016 on the LBL basis will complete	Internal Audit Manager	June 2016.
2. Mazars should provide details of their internal and external quality review audits that presently demonstrate compliance with their ISO9001 quality system and through this, compliance with IA standards.	Agreed. Mazars have provided evidence of the compliance with ISO9001 since the external assessment took place	Internal Audit Manager	Completed
3. Mazars should be asked to either share their gifts/ hospitality register or be required to participate in the LBL system.	Not agreed. Until Mazars procures services on our behalf, the need for a gifts and hospitality register is not required.	n/a	n/a
4. So as to improve clarity, paragraph 5.5 of the Audit Charter 2015/16, it should be reworded thus: *As the HIA has line management responsibility for a number of operational activities not relating to internal audit, to safeguard audit objectivity whenever these systems are audited by the internal audit team, the IACM will operate independently of the HIA and will for these matters report directly to the CFO*	Agreed A review of the Charter for 2016/17 has taken place, and wording amended to reflect this recommendation.	Internal Audit Contract Manager	Completed
5. Consideration should be given to renaming the Internal Audit Contract Manager post as Operational HIA to make clearer the remit of the post. The job description could	The restructure will make the internal audit contractor manager's role redundant, therefore a new Job Description will be created and these points will be	Head of Corporate Resources	June 16

Recommendation	Action Plan	Responsible Officer	Due by
also state: • the post holder's authority to act independently of the HIA in regard to audits of systems managed by the HIA and the reporting line directly to the CFO in such instances; • that the IACM will deputise for the HIA in regard to internal audit matters only	taken into consideration.		
6. Consider introducing a standard paragraph into project ToRs and audit reports stating that the auditor has no conflict of interests. This will demonstrate that independence is considered as part of project planning. It will therefore strengthen the assurance presently made in the Audit Charter and the Annual Assurance Report that the internal audit service complies with the PSIAS (and therefore operates with appropriate independence	Agreed. A standard statement has been put into the Terms of Reference for 2016/17 audits , declaring that relating to that particular audit, they have no know impairment to their independence, will remain impartial throughout the review and have no conflict of interests to declare	Internal Audit Contract Manager	Completed.
7. The Audit Panel and the Internal Control Board (ICB) should consider holding in-camera meetings with the Internal Audit Contract manager to ascertain if this manager has any concerns as to the independence of the present arrangements. This should be done at least annually in general terms and whenever an audit of a system managed by the HIA is	Agreement to be confirmed by Audit Pane, ICB and CFO. HIA comment: While in principle this is a good idea, there may be an easier way to implement this. Audit Panel – an annual meeting / or email from the chair to the Internal Audit Contract Manager should suffice. ICB – TBC	TBC	**TBC**

Appendix 3 – Action Plan for Improvements for the Internal Audit Service

Recommendation	Action Plan	Responsible Officer	Due by
undertaken. The CFO should provide similar support to the IA Contract Manager in regard to the audit of any system managed by the HIA	CFO – TBC		
8. The Audit Panel should consider annually completing an effectiveness assessment that includes an assessment of the effectiveness of the internal audit service and HIA. A number of assessment templates exist. The NHS typically uses one prepared by the Healthcare Financial Management Association (HFMA).	To be agreed with the Audit Panel. Self-assessment of the audit panel (or committee) are available.	TBC	**TBC**
9. LBL should consider asking Mazars to periodically declare compliance with their staff appraisal and training systems (note: the need to conduct appraisals and operate training programmes for staff seem not to be in the scope of the ISO9001 system and therefore independent inspections by BSI cannot be relied upon for this purpose)	The Internal Audit Contract Manager will request A statement by Mazars when they complete their register of interests forms.	Internal Audit Manager	June 2016.
10. When submitting draft reports to the IACM Mazars should provide written confirmation that the working papers and draft report have been subject to their normal quality assurance process and all review points	Not agreed as felt it is an over control. However, the IACM will put in the protocol that this a requirement, but report to the IACM if there is a break with the protocol.	Internal Audit Manager	June 2016.

Appendix 3 – Action Plan for Improvements for the Internal Audit Service

Recommendation	Action Plan	Responsible Officer	Due by
have been addressed.).			
11. Liaison with external audit should be strengthened.	Agreed Although the HIA meets with them on a regular basis this is in relation to his other activities (i.e pensions). Discussion with External Audit will take place to see how it can be improved	HIA and External Audit	June 16
12. Performance management systems are a key component of internal control. Consideration should be given to cyclically auditing the performance management arrangements of individual directorates, if an overall review is considered too large an undertaking. A risk based approach to determining the most suitable areas for review should be adopted	Agreed in principal. The HIA and IACM will consider this during the next round of planning.	Head of Audit / Internal Audit Contract Manager	**December 2016**
13. ASQs are valuable in measuring the effectiveness of the service and motivating IA staff. Efforts should be made to improve the current level of client feedback by adopting the following strategies: • following up promptly where returns have not been made, • responding to replies very promptly to demonstrate that feedback is valued	Agreed When the in-house team is in place, this will form part of their PI.	Internal Audit Contract Management	**September 2016**

Assurance Opinion Definitions

Level	Definition
Substantial Assurance ★	A strong framework of controls is in place to ensure that the service area is more likely to meet their objectives. In addition, the controls in place are continuously applied or with only minor lapses.
Satisfactory Assurance ●	A sufficient framework of controls is in place, but could be stronger to improve the likelihood of the service area achieving its objectives. In addition, the controls in place are regularly applied, but with some lapses.
Limited Assurance ▲	There are limited or no key controls in place. This increases the likelihood of the service area not achieving its objectives. Where key do controls exist, they are not regularly applied.
No Assurance ■	There is no framework of key controls in place. This substantially increases the likelihood that the service area will not achieve its objectives. Where key controls do exist, they are not applied.

Definitions of Category of recommendations.

High	It is crucial that this recommendation is implemented immediately. This will ensure that service area will significantly reduce its risk of not meeting its objectives.
Medium	Implementation of this recommendation should be done as soon as possible, to improve the likelihood of the service area meeting its objective.
Low	Implementation of this recommendation would enhance control or improve operational efficiency.