Lewisham

Proposed Internal Audit Plan and Internal Audit Charter 2020-21

1. Executive Summary

1.1. This report presents proposals for internal audit work for 2020/21. The impact of Covid-19 meant that all internal audit work ceased between April and June 2020 as the team were redeployed under the volunteering scheme to front line critical services. When audit services resumed in July 2020 all effort was focused on the completion of the 2019/20 work plan. Therefore the audit plan for 2020-21 covers the last 7 months of the year and consists of 504 days. This will provide 484 days of corporate audit, including 75 days of bought-in service to cover specialist review, and 20 days for follow-ups.

1.2. Recruitment to Head of Internal Audit post is not yet complete, but an interim Head has been seconded to the role from PricewaterhouseCoopers (PWC) until 31 March 2021.

2. Background

2.1. Internal Audit is a statutory service, which aims to provide independent assurance to the Audit Panel, Chief Finance Officer, Executive Management Team and other senior managers that an appropriate system of governance and internal control is in place to mitigate key risks that may impact on the achievement of the Council's services and priorities. Internal Audit work is planned to support the goals of the Council from an objective assessment of the system of internal controls.

2.2. Whilst it is management's responsibility to develop and maintain a sound system of internal control, and to prevent and detect irregularities, the overall aim of internal audit work is to seek out areas requiring improvement and recommend solutions that will enable the Council to better achieve its objectives. Therefore, the planning approach is based on achieving coverage over a reasonable period of time, of the Council's main risks and core processes where there is a reasonable expectation of detecting significant control weakness and fraud.

2.3. This report summarises the methodology by which the programme of audit work has been identified and sets out the proposed audits for the remainder of 2020/21. As set out above, during the period April – June 2020 all internal audit work was paused whilst the team was redeployed under the volunteering scheme to business critical front line services. When the service re-commenced in July 2020 the priority was the completion of the outstanding 2019/20 audits during the months of July and August. This has meant that the 2020/21 audit plan will be delivered over the remaining seven months of the year. This possibility was raised and discussed at the Audit Panel meeting in February 2020 as a national pandemic lockdown appeared increasingly likely.

Approach to developing the internal audit plan

2.4. To ensure objective coverage of the control framework, the internal audit plan has been developed in line with best practice using a 'risk-based' approach. The Strategic Risk Register has been reviewed to ascertain the Council's key risks which have been mapped against 'auditable units' related to the Council's objectives.

2.5. Auditable units are the lowest level of auditable subject area, process or location within directorates and across the organisation. They have been identified to enable evaluation of the adequacy and effectiveness of controls to mitigate the inherent risks within the organisation's governance, operations and information systems for:

- Achievement of strategic and operational objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of resources; and
- Compliance with laws, regulations, policies, procedures and contracts.

2.6. Internal audit have then sought to assess the audit requirement within each auditable unit, taking into consideration the timing and findings of previous audit work and other known sources of assurance, along with the occurrence or likelihood of change.

2.7. The Council has undergone significant change in response to Covid-19, in terms of both its internal operation and approaches to service delivery. This has been reflected in the latest review of the Council's risk register and therefore been considered in the development of the audit plan. Given the ongoing nature of the pandemic and the likelihood of a second wave during this financial year the plan may require amendment or review.

Audit Delivery approach

2.8. Internal audit work to achieve the plan will be undertaken to evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach. This activity assists the organisation to maintain effective controls by providing an assurance assessment on their adequacy and effectiveness and by promoting continuous improvement. The assurance assessment assigns an objective overall opinion to each audited area, based on the number and risk profile of findings identified, in terms of one of four categories of assurance: Substantial, Satisfactory, Limited, No Assurance.

2.9. It is proposed that the audit service will be delivered by an in-house team of auditors, complemented by technical support for IT assurance from PwC, and led by a seconded Head of Internal Audit from PwC. It is envisaged that this arrangement will continue until the team has stabilised and recruitment of a permanent Head of Internal Audit can be undertaken.

2.10. The principles underpinning the Council's internal audit approach, including requirements of management to facilitate audit work, have been set out in an Internal Audit Charter. The PSIAS require that the charter should be published and approved annually to formally establish the purpose, authority and responsibilities of Internal Audit. The internal audit charter for Lewisham Council is presented in **Annex 2**.

2.11. Delivery of the audit plan will be undertaken to meet standards for efficiency and quality, aiming to meet key performance indicators and targets as follows:

- draft audit reports to be issued within 20 working days of the completion of audit fieldwork;

- final audit reports issued within 10 working days of receiving management agreement to the draft audit report and action plans;

- 90% of the audit plan to be delivered to draft report stage by 31 March; and

- 80% of client satisfaction surveys score a high level of satisfaction with the audit work.

3. Proposed Audit Plan for 2020/21

3.1. Following the approach set out above, an audit plan for 2020/21 has been developed, focusing on the most significant risk areas across the Council. This is provided at **Annex 1,** which shows the proposed scope for each area and link to relevant risks, along with the estimated requirement of audit days and preferred timing.

3.2. The following chart analyses the audit days required to deliver the proposed Internal Audit plan, which shows coverage of directorates.

Chart 1: 20/21 Audit Plan – Directorate Coverage
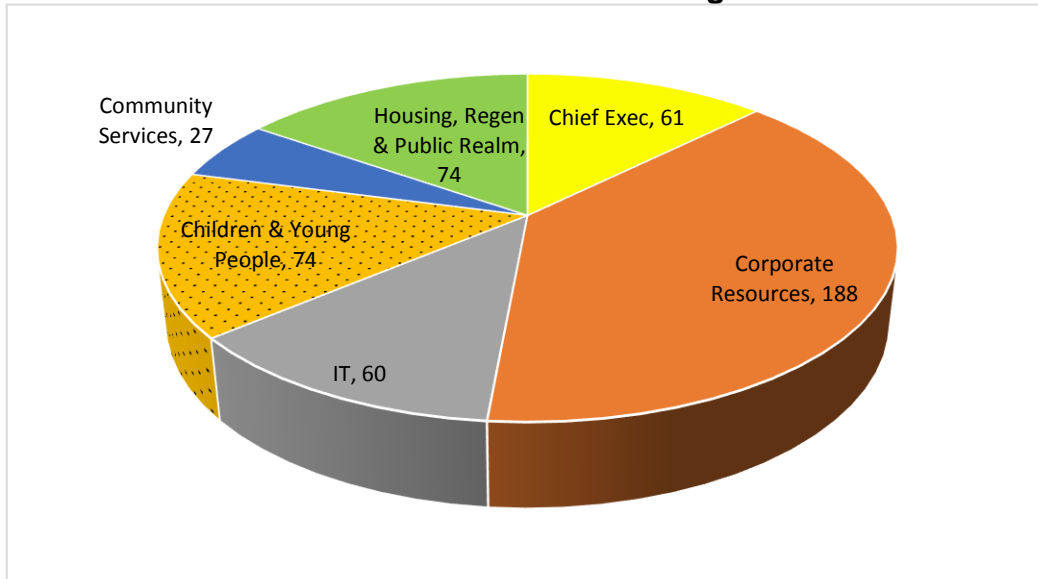
3.3.   It is estimated that the audit assurance for 2020/21 can be delivered with 484 audit delivery days. With the exception of the IT audit requirement and a small element of core audit work which will be resourced externally, sufficient resources to complete this plan are present with a full complement of the in-house team. There are currently 39 corporate audits identified to be conducted. However, there will be more when the IT plan is finalised following a needs analysis. Analysis of the proposed timing for audit start dates is set out in the following chart. It should be noted that there are eight audits (142 days) for which start dates still need to be scheduled.

Chart 2: Analysis of preferred timing for audit start
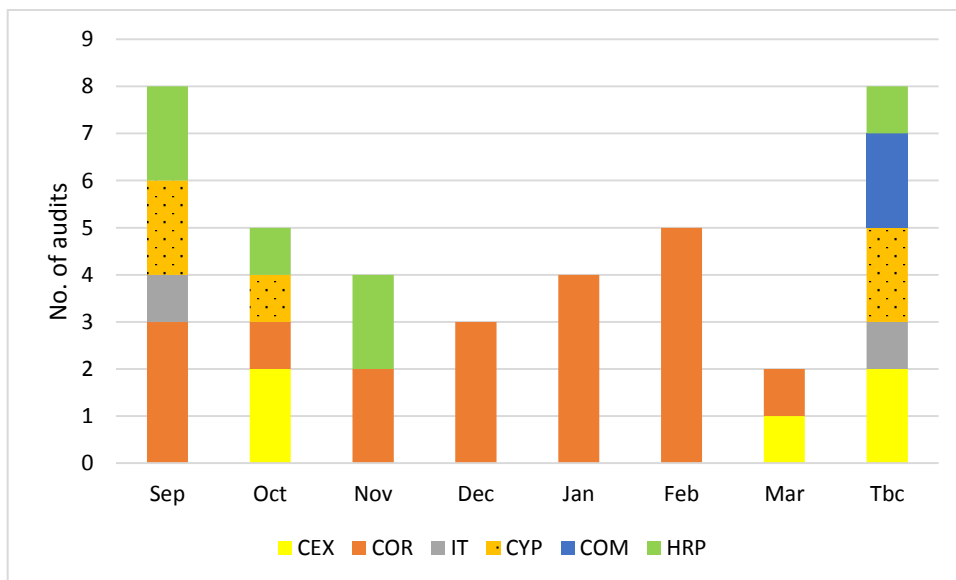
3.4.   Follow up work will be undertaken throughout the year to track managers' progress with the implementation of internal audit recommendations.

3.5.   The audit plan has been shared with senior management and needs to be flexible to enable a responsive service in the face of changing risks and priorities that may impact upon the Council's services. Therefore, it should be recognised that the plan may need to be adjusted in response to changes in the Council's business, risks, operations, systems and controls as the year progresses. Where such changes are required, details will be reported to EMT and the Audit Panel.

Appendix 1

There are no school audits identified, as the assurance for this risk area has been deferred given that schools have not been operating under normal arrangements due to the Covid-19 pandemic and Internal Audit resources were redeployed across the Council until August 2020.

If there are any queries on this report, please contact:

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Annex 1 – Proposed Internal Audit Plan for 2020/21

Audit Name	Scope	Link to Risk	Timing Preference	Audit Days
Chief Executives (CEX)				
HR Policies	To review the HR policies that form the basis of staff guidance.	Strategic risk 2A.3 - Strategic programme to develop and implement transformation change does not deliver (Red)	Oct 20	12
Transition Plans	To review the process of completing and monitoring of the new type of service plans.	Strategic risk 2A.3 - Strategic programme to develop and implement transformation change does not deliver (Red)	Tbc	12
Supporting Families Programme Grant Certification 20-21	To verify a sample of claims in line with MCLGCH guidelines		Mar 21	10
Consultation Process	To review Council's process on conducting public consultations	Strategic risk 2A.3 - Non-delivery of transformational change (Red)	Tbc	12
Covid Governance	To review arrangements for decision making during the Covid-19 pandemic and subsequent changes	Strategic risk 1A.2 - Governance (opportunities and threats) in the implementation of service changes (Amber)	Oct/Nov 20	15
Corporate Resources (COR)				
Tendering and Procurement of Contracts	To review the tendering process, guidance, and procurement of contracts	Strategic risk 4A.1 - Failure to manage strategic suppliers and related procurement programmes (Amber)	Oct 20	15
2020/21-01 - Accounts Payable 20-21	Review of key controls for new suppliers and bank amendments, payments processing and reconciliations	Strategic risk 2A.1 - Adequacy of Internal Control Framework (Red)	Dec 20	8
Accounts Receivable and Debt Recovery 20-21	Review of key controls for raising and processing invoices, debt recovery and reconciliations as well as follow-up of 2019/20 audit actions.	Strategic risk 2A.1 - Adequacy of Internal Control Framework (Red) Strategic risk 5A.2 - Loss of Income to the Council – Failure to collect debt (Amber)	Jan 21	12

Annex 1 – Proposed Internal Audit Plan for 2020/21

Audit Name	Scope	Link to Risk	Timing Preference	Audit Days
Asset Management 20-21	Review of key controls for maintaining the asset register, acquisitions and disposals and reconciliations	Strategic risk 2A.1 - Adequacy of Internal Control Framework (Red)	Nov 20	8
Banking 20-21	Full audit of transaction processing, banking, cash security and reconciliations	Strategic risk 2A.1 - Adequacy of Internal Control Framework (Red)	Nov 20	10
Budget Monitoring 20-21	Focus on monitoring of budgets with significant overspends in 19/20, with testing of managers' processes for keeping control of budgets, including monitoring at directorate level and service level and reporting to members.	Strategic risk 5A.1 - Financial Failure and inability to maintain service delivery within a balanced budget (Amber)	Feb 21	10
Business Rates 20-21	Review of key controls for billing, collection and recovery action and reconciliations.	Strategic risk 2A.1 - Adequacy of Internal Control Framework (Red)	Feb 21	6
Client Contribution for Care Provision 20-21	Follow-up review of action plan following 2019/20 Limited assurance audit	Strategic risk 2A.1 - Adequacy of Internal Control Framework (Red)	Feb 21	10
Council Tax 20-21	Review of key controls for billing, collection and recovery action and reconciliations.	Strategic risk 2A.1 - Adequacy of Internal Control Framework (Red)	Jan 21	6
Housing Benefit and Council Tax Reduction Scheme (CTRS) 20-21	Review of key controls for applications and assessments, processing of housing benefit payments, changes in circumstances and reconciliations.	Strategic risk 2A.1 - Adequacy of Internal Control Framework (Red)	Dec 20	6
Main Accounting 20-21	Review of key controls for interface reconciliations, suspense and control accounts, bank reconciliations and journals	Strategic risk 2A.1 - Adequacy of Internal Control Framework (Red)	Dec 20	8
Payroll 20-21	Review of key controls relating to starters, leavers, changes, deductions, payroll processing and reconciliations.	Strategic risk 2A.1 - Adequacy of Internal Control Framework (Red)	Feb 21	8
Pensions 20-21	Review of key controls for administering pensions including processing pension payments, collecting and recording contributions, and reconciliation of pension records against income and expenditure.	Strategic risk 2A.1 - Adequacy of Internal Control Framework (Red)	Feb 21	8
Treasury Management 20-21	Review of key controls for processing treasury transactions (investments and borrowing), CHAPs payments and reconciliations.	Strategic risk 2A.1 - Adequacy of Internal Control Framework (Red)	Jan 21	7

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Audit Name	Scope	Link to Risk	Timing Preference	Audit Days
VAT	To review the claiming and charging of VAT	Strategic risk 2A.1 - Adequacy of Internal Control Framework (Red)	Jan 21	15
Relief and Support Allocation - Covid 19	To review the framework on how the council distributed the funds / grants in relation to COVID 19 to businesses and Council tax. To include a review of any policies created and how returns are collated and reported to MHCLG. To include; B/rates, council tax, and any hardship funds.	Covid Pandemic	Sep 20	12
School Finance	To review the corporate processes for allocation of DSG (Dedicated School Grants), collating and submitting statutory returns and budget monitoring for schools.	Strategic risk 5A.1 - Financial Failure and inability to maintain service delivery within a balanced budget (Amber)	Sept 20	12
Risk Management Framework	To review the risk management process to see if adheres to best practice.		Sept 20	12
Leisure management	To review open book arrangements set up to oversee management of the GLL contract	Strategic risk 4B.1 - Failure to manage performance leads to service failure (Amber).	Mar 21	15
IT Service				
IT Audit Needs Assessment	To perform an audit needs assessment on the Shared Service and Lewisham Council.	Strategic risk 2B.2- Cyber Security breaches corrupt or locks down Council systems or data. (Red)	Sept 20	10
IT audits to be confirmed	Based on the outcome of the audit needs assessment, review of IT risk areas will be undertaken. Possible options included Smart tech roll-out project, Liquid Logic/Controcc upgrade, Oracle HR/Payroll post implementation security, Office 365 and SharePoint online, Payment Card Industry data security standard compliance.	Strategic risk 2B.1 - ICT not fit for purpose/does not meet business needs (Amber) Strategic risk 2B.2- Cyber Security breaches corrupt or locks down Council systems or data. (Red)	Oct 20 – Mar 21	50
Children and Young People (CYP)				
Payments to Childcare Providers and Foster Carers for Looked After Children - 20-21	Review of payments to foster carers and childcare providers, to ensure that payments are made on time and only for services provided.	Strategic risk 2A.1 - Adequacy of Internal Control Framework (Red)	Tbc	15

Annex 1 – Proposed Internal Audit Plan for 2020/21

Audit Name	Scope	Link to Risk	Timing Preference	Audit Days
Children Social Care (CSC) Improvement Programme Progress	To review the CSC progress on the OFSTED inspection programme.	Strategic Risk 2A.2 - Failure in child safeguarding (Red) Strategic risk 4B.1 - Failure to manage performance leads to service failure (Amber).	Oct 20	15
Early Help Service Transformation	To review the Early Help Service transformation.	Strategic Risk 2A.2 - Failure in child safeguarding (Red)	Tbc	14
Contract Management Audits	To review the contract management for at least two contracts. Areas to be confirmed.	Strategic risk 4A.1 - Failure to manage strategic suppliers and related procurement programmes (Amber)	Sep 20	20
Schools Websites	To review school websites to confirm compliance with statutory requirements.	Strategic risk 1B.2 - Respond to legislative change	Sep 20	10
Community Services (COM)				
Arranging Care Team	To review the processes undertaken by the new team for arranging adult care	Strategic Risk 2A.5 - Serious Adult Safeguarding Concerns (Red)	Tbc	15
MASH - Adults	To review the structure and governance arrangements and information sharing protocols in the newly formed adult Multi-Agency Safeguarding Hub team.	Strategic Risk 2A.5 - Serious Adult Safeguarding Concerns (Red) Strategic Risk 3B.1 - Multi-agency governance leads to ineffective partnership working (Amber) Strategic Risk 3B.2 - Failure to agree with partners integrated delivery models for local health and care services (Amber)	Tbc	12
Housing, Regeneration and Public Realm (HRP)				
Capital Expenditure 20-21	Review of monitoring and reporting of capital expenditure, covering reporting on progress against milestones, objectives and financial forecast, including variations.	Strategic risk 2A.1 - Adequacy of Internal Control Framework (Red)	Nov 20	8

Annex 1 – Proposed Internal Audit Plan for 2020/21

Audit Name	Scope	Link to Risk	Timing Preference	Audit Days
Rough Sleeping Initiative Funding	To review the framework on how the council has used the funding, including any grant / funding conditions.	Covid pandemic	Nov 20	12
Section 17 (Refugee Programme)	To review the process of referrals for section 17 relating to refugees, including management of overspend.			12
Private Sector Housing Agency	To review the framework around Private Sector Housing Agency.	Strategic risk 4B.1 - Failure to manage performance leads to service failure (Amber).	Oct 20	15
Building for Lewisham	To review the programme / project management for Building for Lewisham.	Strategic risk 5A.1 - Financial Failure and inability to maintain service delivery within a balanced budget (Amber)	Sep 20	15
COVID-19: Death management and Registration Services	To review the guidance on death management services during Covid 19 including: registrars and issuing of certificates remotely / digitally, moving, storage and disposal of the deceased.	Covid pandemic	Sep 20	12

London Borough of Lewisham
Internal Audit Charter 2020/21

1. Introduction

This Charter provides the framework for the conduct of internal audit activities in the London Borough of Lewisham. It sets out the purpose, authority and responsibilities of the Council's service.

The Chartered Institute of Public Finance and Accountancy has adopted the Public Sector Internal Audit Standards (PSIAS) since 1 April 2013. These apply to all internal audit service providers, whether in-house or contracted partners.

2. Purpose

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

3. Scope

All of Lewisham Council's activities (including outsourced activities and shared service arrangements) and legal entities are within the scope of Internal Audit. Internal Audit determines what areas within its scope should be included within the annual audit plan by adopting an independent risk-based approach, but this does not necessarily cover all potential scope areas every year. The audit programme includes obtaining an understanding of the processes and systems under audit, evaluating their adequacy, and testing the operating effectiveness of key controls. Internal Audit can also, where appropriate, undertake special investigations and consulting engagements at the request of the Audit Panel, senior management and regulators.

Notwithstanding Internal Audit's responsibilities to be alert to indicators of fraud and weaknesses in internal control which would permit fraud to occur, the Internal Audit activity will not undertake specific fraud-related work. Such work is carried out by the Council's Anti-Fraud & Corruption team.

Internal Audit will coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of effort.

4. Authority

The Council is required under the Accounts and Audit Regulations 2015 (Regulation 5) to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, and taking into account public sector internal auditing standards or guidance. The Internal Audit function of the Lewisham Council derives its authority from the Board through the Audit Panel. The Chief Audit Executive is authorised by the Audit Panel and the Council's Financial Regulations (which are part of the Constitution) to have full and complete access to any of the organisation's records, properties and personnel. The Chief Audit Executive is also authorised to designate members of Internal Audit staff to have such full and complete access in the discharging of their responsibilities and may engage experts to perform certain engagements, which will be communicated to management. Internal Audit will ensure confidentiality is maintained over all information and records obtained in the course of carrying out audit activities.

5. Responsibilities

The Chief Audit Executive is responsible for preparing the annual audit plan in consultation with the Audit Panel and senior management, submitting the audit plan, internal audit budget, and resource plan for review and approval by the Audit Panel, implementing the approved audit plan, and issuing periodic audit reports on a timely basis to the Audit Panel and senior management.

The Chief Audit Executive is responsible for ensuring that the Internal Audit function has the skills and experience commensurate with the risks of the organisation. The Audit Panel should make appropriate enquiries of senior management and the Chief Audit Executive to determine whether there are any inappropriate scope or resource limitations.

It is the responsibility of management to identify, understand and manage risks effectively, including taking appropriate and timely action in response to audit findings. It is also management's responsibility to maintain a sound system of internal control and improvement of the same. The existence of an Internal Audit function, does not in any way relieve them of this responsibility.

Management is responsible for fraud prevention and detection. As Internal Audit performs its work programmes, it will be observant of manifestations of the existence of fraud and weaknesses in internal control which would permit fraud to occur or would impede its detection.

6. Independence
Internal Audit staff will remain independent of the business and they shall report to the Chief Audit Executive who, in turn, shall report functionally to the Audit Panel and administratively to the Director of Corporate Resources.

Internal Audit staff shall have no direct operational responsibility or authority over any of the activities they review. Therefore, they shall not develop nor install systems or procedures, prepare records or engage in any other activity which they would normally audit. Internal Audit staff with real or perceived conflicts of interest must inform the Chief Audit Executive as soon as these issues become apparent so that appropriate safeguards can be put in place.

For the period from 1 April until August 2020, the Chief Audit Executive had other operational activities that were not related to internal audit. To mitigate potential conflicts to independence over this period, the Chief Audit Executive delegated the responsibility for agreeing the scope of audit work relating to these activities to the operational manager, with the Internal Audit Manager overseeing the audit work and reporting to the Chief Financial Officer. From August 2020 onwards, the Chief Audit Executive will have no direct operational responsibility for any of the Council's activities.

7. Professional competence and due care
The Internal Audit function will perform its duties with professional competence and due care. Internal Audit will adhere to the Definition of Internal Auditing, Code of Ethics and the Standards for the Professional Practice of Internal Auditing that are published by the Institute of Internal Auditors. Internal Audit will also adhere to the requirements of the PSIAS. In particular, the Internal Audit service is bound by the two essential components of the Code of Ethics: Principle and Rules of Conduct, applicable to the four elements of integrity, objectivity, confidentiality and competency.

8. Monitoring and reporting
At the end of each audit, the Chief Audit Executive or designee will prepare a written report and distribute it as appropriate. Internal Audit will be responsible for appropriate follow-up of audit findings and recommendations. All significant findings will remain in an open issues file until cleared by the Chief Audit Executive on behalf of the Audit Panel. The Audit Panel will be updated regularly on the work of Internal Audit through periodic and annual reports. The Chief Audit Executive shall prepare reports of audit activities with significant findings along with any relevant recommendations and provide periodic information on the status of the annual audit plan.

Where necessary, the Chief Audit Executive will meet with the Chair of the Audit Panel in private to discuss internal audit matters.

The performance of Internal Audit will be monitored through the implementation of a Quality Assurance and Improvement Programme, the results of which will be reported periodically to senior management and the Audit Panel.

9. Other internal audit work
Internal Audit may perform consulting and advisory services related to governance, risk management and controls as appropriate for the Council. Internal Audit may also evaluate specific operations at the request of senior management. Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to senior management.

Internal Audit will be informed of major projects and their progress through continued discussion with management and attendance at project working groups, where invited to attend. Where a project team seeks advice or further support from Internal Audit, the request will be treated as one for consultancy support and make appropriate arrangements to ensure future objectivity is not impaired.

Internal Audit may carry out assurance work for third parties (i.e. organisations outside of the Council). Assurances provided to third parties are provided in line with the assurance standards provided to the Council, as described within this document.

The Internal Audit service is guided by the Institute of Internal Auditors' position paper on *The Role of Internal Auditing in Enterprise-Wide Risk Management* and therefore Internal Audit will not undertake any roles defined as inappropriate by that guidance. Inappropriate roles include setting the Council's risk appetite, imposing a risk management process and taking on full accountability for risk management. Internal Audit work is largely limited to supporting working groups throughout the Council and facilitating the identification and evaluation of risks.

10. Quality assurance

Internal Audit activity will adhere to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics and the International Professional Practices Framework. This guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of internal audit performance to ensure that engagements are performed with proficiency and due professional care. In addition, Internal Audit will adhere to the Council's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

All Internal Audit staff will be trained to fulfil their roles and responsibilities and will each maintain their professional competence through an appropriate ongoing professional development programme. When necessary, in-house Internal Audit resources will be supplemented by external resources.

The Internal Audit service maintains a Quality Assurance and Improvement Programme (QAIP) designed to gain assurance that the work of Internal Audit is compliant with the PSIAS and achieves its objectives. The results of the QAIP and progress against any improvement plans will be reported to senior management and the Audit Panel.

To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics and the PSIAS, the results of internal and periodic external assessments are communicated upon their completion and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

11. Definitions

The PSIAS require the Internal Audit Charter to define the terms 'Board' and 'senior management' for the purposes of internal audit activity:

Board: *The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. This body is charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.* Throughout this document, the term 'Board' refers to the Full Council.

Senior management: *The individuals at the highest level of organisational management who have day-to-day responsibility for managing the organisation.* Throughout this document, the term 'senior management' refers to the Executive Management Team.

Chief Audit Executive: *Chief Audit Executive describes a person in a senior position responsible for effectively managing the internal audit activity.* This role is fulfilled by the Head of Internal Audit, who is currently Christine Webster, seconded from PricewaterhouseCoopers LLP.

9 September 2020