



## Audit & Risk Committee

### Internal Audit Charter and Internal Audit Progress Update

**Date:** 13 September 2023

**Key decision:** No.

**Class:** Part 1.

**Wards affected:** All

**Contributors:** Rich Clarke, Head of Assurance

### Outline and recommendations

The Internal Audit Charter is a formal document translating the principles and objectives of the Public Internal Audit Standards into local application. This 2023 update makes various minor changes to the existing Charter, such as reflecting the Committee's new name.

The report also includes an update on progress of the internal audit service. This sets out work concluding 2022/23 and 2023/24 progress, incorporating proposals for independent delivery of 23/24 planned work within the Head of Assurance's other areas of operational responsibility.

We ask that Members **approve** the Internal Audit Charter.

We ask that Members **note** the Internal Audit Progress Update.

We ask that Members **approve** plans for delivery of part of the 23/24 audit plan.

### Timeline of engagement and decision-making

**8 September 2002:** Existing Internal Audit Charter approved by Audit Panel.

**13 September 2023:** Updated Charter presented to Audit & Risk Committee.

## 1. Summary

- 1.1 To conform with Public Sector Internal Audit Standards (the “Standards”) each internal audit service must have a Charter. The Charter sets out how the parts of Standards that are left to local application will function in the Council, as well as providing a high-level statement on the role and authority of internal audit. The Standards demand the Charter undergoes periodic review and approval.
- 1.2 The current Internal Audit Charter was approved by the Audit Panel by correspondence in September 2022 (the Panel meeting scheduled to approve the Charter was cancelled following announcement of the Queen’s death). That update was a full revision reflecting the significantly altered role of Head of Assurance replacing the previous Head of Audit who was an external secondee. The 2023 update is more limited in scope, focussed on keeping the Charter current rather than introducing any significant change.
- 1.3 This report also provides an update on the internal audit service’s work up to September 2023. This includes the full close of all remaining 2022/23 work and progress towards the 2023/24 plan. The update also details the Council’s work towards implementing agreed audit actions. Finally, the report identifies a conflict of interest issue around one engagement on the 2023/24 plan and proposes delivering that engagement through an independent contractor.

## 2. Recommendations

- 2.1 The Audit & Risk Committee **approves** the Internal Audit Charter
- 2.2 The Audit & Risk Committee **notes** the Internal Audit progress update.
- 2.3 The Audit & Risk Committee **approves** proposals for independent delivery of the Insurance Claim Management engagement.

## 3. Policy Context

- 3.1 This report aligns with Lewisham’s Corporate Priorities, as set out in the Council’s [Corporate Strategy \(2022-2026\)](#):
  - Cleaner and Greener
  - A Strong Local Economy
  - Quality Housing

- Children and Young People
- Safer Communities
- Open Lewisham
- Health and Wellbeing

3.2 This report aligns to all priorities through its role in supporting good governance.

## 4. Background

4.1 The Standards (specifically Standard 1000) demand that each internal audit service must have an approved Charter:

*“The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter consistent with the [Standards]. The [Head of Audit] must periodically review the charter and present it to senior management and the board for approval.”*

4.2 The Standards mandate various specific components for a public sector internal audit charter:

- Define the terms ‘board’ and ‘senior management’ in an organisational context (see Charter Section 9).
- Cover arrangements for appropriate resourcing (see Charter Sections 3.3, 3.4 and 6.1).
- Define the role of internal audit in fraud-related work (see Charter section 5.5)
- Describe safeguards to limit impairments of independence or objectivity if internal audit or the chief audit executive undertakes non-audit activity (see Charter Section 4).

## 5. Revised Internal Audit Charter

5.1 The 2022 revision to the Charter was a complete refresh. There has been no update to Standards or other guidance in the meantime, so changes for 2023 are primarily cosmetic or for clarification. The Charter attached to this report includes the following updates:

- Replaces references to “Audit Panel” with “Audit & Risk Committee”.
- Seeks Member approval before implementation for approaches adopted to mitigate identified conflicts of interest. Previously the Charter only required Members to be informed. This change is not required by current Standards, but is included within the current exposure draft for new Standards expected in 2024 and represents best practice.
- Expands the range of alternative service providers in the event of conflict to any local authority audit service. Previously this was limited to London Boroughs

only, and the change is intended to provide a wider range of options should an alternative provider be necessary for a specific engagement. Note that, as per the point above, Members will have the opportunity to comment in advance on any alternative service provider proposals.

- Clarifies that preventing fraud is a management responsibility, not one held solely by the Council's counter fraud team.
- Various incidental wording changes for brevity and clarity.

## **6. Internal Audit Service Update**

### Concluding 2022/23 work

- 6.1 When issuing the 2022/23 annual report a handful of engagements were not fully complete. In all instances we had completed the fieldwork and so held oversight of the issues raised and their impact on the annual opinion. However in some cases we were in the process of finalising the reporting and actions. The table overleaf sets out the final conclusions of the 22/23 work which is now fully complete. We note this represents the earliest full completion of an audit work year achieved by the Council in several years.

### Progressing 2023/24 work

- 6.2 Earlier completion of prior year work has meant we've been able to make a fast start to 2023/24. The first Engagement Terms of Reference for the 2022/23 was issued in November 2022 and the first report in December 2022. By the end of August 2023 we have issued 4 2023/24 terms of reference documents and have 14 reports scheduled for issue before the end of the calendar year. The table overleaf gives current and scheduled progress.

### Audit Team Update

- 6.3 In June we reported that the London-wide apprentice scheme had been nominated for an Audit & Risk Magazine award in the "best innovation in training and development" category. Unfortunately we did not win, but achieved a 'highly commended' comment from the judges. The apprenticeship scheme continues to be a success and recently recruited a second round of London apprentices. Although Lewisham was not an employer in round two, we helped with the selection and will contribute to training the new London apprentices.
- 6.4 In October Lewisham Homes will be largely re-integrated to the Council. For the internal audit team this means welcoming two new colleagues and taking on responsibility for an area currently subject to a separate audit plan, delivered

under contract by TIAA. That contract was already scheduled to expire at the end of 2023/24. We will shortly develop proposals for continuing delivery of internal audit coverage of former Lewisham Homes areas of responsibility as part of our 2024/25 audit planning. We will begin including TIAA audit findings and results in our reporting to this Committee starting with the next update.

- 6.5 The Council will take over the TIAA Lewisham Homes contract part-way through the year. Some of the audit engagements scheduled for the latter part of 2023/24 will no longer apply given the proposed examining systems that will no longer operate as separate enterprises. TIAA have agreed we can redeploy the audit time to Council audits without incurring additional cost. The 2023/24 update in this report notes the engagements we now plan to have delivered by TIAA under this contract.

### Audit Independence

- 6.6 One of the engagements on the 2023/24 approved audit plan was to examine *Insurance Claim Handling*. This area is directly within the Head of Assurance's operational remit and so obliges consideration of whether we ought to pursue alternative delivery rather than risking a conflict of interest by using the in-house audit team. Broadly speaking, the options are:

- Conclude that disclosure is sufficient risk mitigation and proceed using the in-house audit team.
- Seek a resource-exchange arrangement with another London Borough to complete the work.
- Separately procure an independent contractor.
- Use redeployed TIAA resources from the Lewisham Homes novated contract.

- 6.7 The proposed approach is to ask TIAA to complete the engagement as a general audit. The Lewisham Homes contract is for full delivery, meaning TIAA would lead on everything from planning to reporting. This allows the Head of Assurance to step fully aside from the work. We also note that, as part of an existing contract, this option incurs no extra cost or resource commitment.

## Internal Audit Engagements 2022/23

Ref	Title	Finding Summary	Assurance Rating	Report Date	Note Para
<b>2022/23 Engagements Completed after Opinion Report (x8)</b>					
22/23-RBE-A08	Voids Management	1 x H, 7 x M, 4 x L	<b>Limited</b>	29-Jun-23	6.8-9
22/23-SCH-18	Bonus Pastor Catholic College	2 x M, 6 x L	<b>Substantial</b>	10-Jul-23	
22/23-RBE-A09	Community Infrastructure Levy	(nil)	<b>Substantial</b>	10-Jul-23	
22/23-RBE-A15	Public Health Service Commissioning	3 x M	<b>Satisfactory</b>	21-Jul-23	
22/23-RBE-B04	IT Network Architecture Governance	4 x M, 1 x L	<b>Satisfactory</b>	26-Jul-23	
22/23-RBE-B09	Libraries	2 x M	<b>Satisfactory</b>	31-Jul-23	
22/23-RBE-B06	Food Safety	1 x H, 3 x M, 3 x L	<b>Limited</b>	14-Aug-23	6.10-11
22/23-RBE-A17	Special Needs Commissioning	4 x M	<b>Reasonable<sup>1</sup></b>	31-Aug-23	

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<sup>1</sup> Review completed by TIAA under contract using their evaluation scoring. "Reasonable" broadly corresponds with "Satisfactory" on the in-house scale.

## Internal Audit Engagements 2023/24

Ref	Title	Progress at 1 September 2023	Planned Report Date
23/24-RBE-04	Staff Performance Management	Fieldwork underway	5-Sep-23
23/24-RBE-02	Corporate Communications	In Planning	13-Sep-23
23/24-RBE-13	Sports & Leisure	Fieldwork underway	15-Sep-23
23/24-RBE-11	Licensing	In Planning	30-Sep-23
23/24-RBE-21	Corporate Budget Setting & Savings Targets	Fieldwork underway	tbc-Sep-23
23/24-RBE-12	Tree Maintenance	Fieldwork underway	2-Oct-23
23/24-RBE-14	Community Development	In Planning	4-Oct-23
23/24-RBE-28	Street Cleansing	In Planning	13-Oct-23
23/24-RBE-25	Planning Application Management	In Planning	29-Oct-23
23/24-RBE-10	Access & Inclusion	In Planning	tbc-Oct-23
23/24-RBE-20	Accounts Payable	Assigned to TIAA using LH days	tbc-Oct-23

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Ref	Title	Progress at 1 September 2023	Planned Report Date
23/24-RBE-07	Schools HR Services	In Planning	3-Nov-23
23/24-RBE-08	Virtual School	In Planning	9-Nov-23
23/24-RBE-30	Flood Management	In Planning	13-Dec-23
23/24-RBE-15	Accounts Receivable	Assigned to TIAA using LH days	tbc-Jan-24
23/24-RBE-17	Insurance Claim Management	Provisionally assigned to TIAA using LH days	tbc-Mar-24

Of the 47 Engagements listed on the 2023/24 audit plan, there are:

- 4x with Fieldwork currently underway
- 9x in active Planning
- 19x assigned to auditors (including 3x provisionally to TIAA). Planning for these audits will begin later in the year.
- 15x schools' engagements. We consulted schools on preferred timing before the summer break. This month, in consultation with schools, we will develop those preferences into a delivery programme for the schools' engagements.

We are currently aiming to have completed all engagement fieldwork by the end of April 2024 and all draft reports issued by the end of May 2024. This will continue our aim to complete the audit plan in full before annual reporting. We currently plan to deliver all engagements, bar the three noted to TIAA, using our in-house audit team.



## Additional Notes on 2022/23 Audit Engagements

6.8 **Temporary Accommodation Voids Management:** This engagement was completed by TIAA. Key findings:

- Through testing and discussions with Management it was identified that whilst there were Temporary Accommodation void controls in place, significant exceptions were identified during the testing phase of the review.
- Opportunities to improve monitoring and reporting arrangements were identified.
- It is not current practice to obtain assurances that the private managed accommodation (PMA) properties allocated to tenants are in line with the lettable standard.
- Applicable rent deductions from the rent payable to the PMA and private sector leasing (PSL) landlord is not deducted.
- Landlord Gas Safety Record (LGSR) and Electrical Installation Condition Report (EICR) certifications were in place before the re-let date.
- EICR and LGSR certificates received from PMA landlords are verified by a third party.

6.9 The service agreed the findings and appropriate remedial actions. The most significant being consolidating procedures within an agreed Temporary Voids process document. This will be created in time for when Lewisham Homes comes in house at the start of October.

6.10 **Food Safety:** This engagement was completed by the in-house team. Notably, it was the first full report led by one of our apprentices. Executive summary excerpted below:

- We found the service undertakes food safety inspections using qualified and trained inspectors. The inspectors consistently work to a high quality, including responding to high-risk complaints quicker than current procedures demand.
- However, the service currently faces a significant inspection backlog. The backlog has arisen for several reasons, including legacy of Covid-19 and difficulties in recruiting inspectors. The Council should focus management attention on measures to bring inspection work back on track.
- We also identified various problems with the M3 Food Safety case management system used by the service up to June 2023. These include limits to functionality and unexplained glitches resulting in loss of records, exacerbated by failure of contingency measures. The service implemented a new system (Assure) on 30 June 2023. Although early reports are not encouraging, in the long-term the service hopes Assure will improve functionality and remedy system problems.

6.11 The service promptly agreed the findings and immediately began working on the various remedial actions. Most significantly, given the varied causes of the

inspection backlog and variety of short, medium and long term actions required, the service has opted to manage continuous improvement through the Council’s risk management approach. This will help ensure the topic receives ongoing attention with accompanying monitoring to track the success of remedial actions, which include additional resources to manage the immediate backlog and a review of service delivery to safeguard longer-term effectiveness.

**7. Agreed Action Follow-Up**

7.1 An important part of how internal audit seeks to drive governance improvements is through agreement of remedial actions to address audit engagement findings. The charts below describe the current (to 30 August) performance in implementing high and medium priority actions (we do not routinely follow up low priority actions). Also note that we typically verify completion of high priority actions as a separate exercise. The numbers below include some actions reported complete where that verification work is pending.

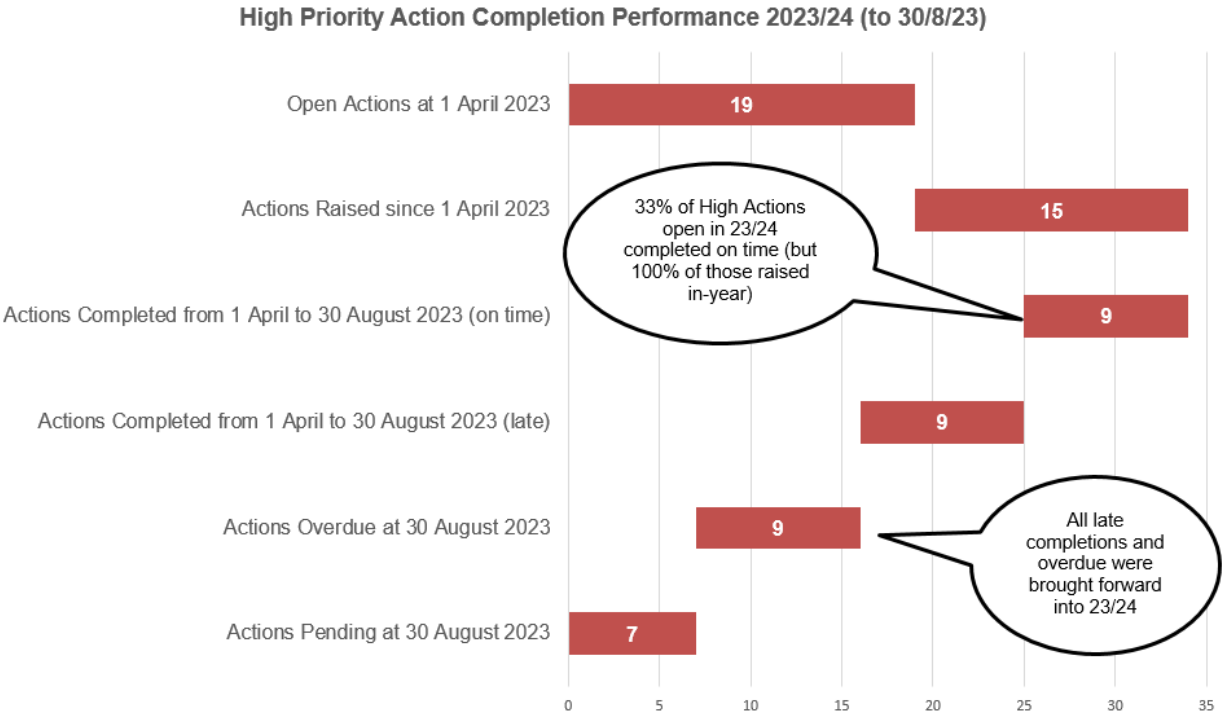


Figure 1: High Priority Action Completion Performance (as reported)

Medium Priority Action Completion Performance 2023/24 (to 30/8/23)

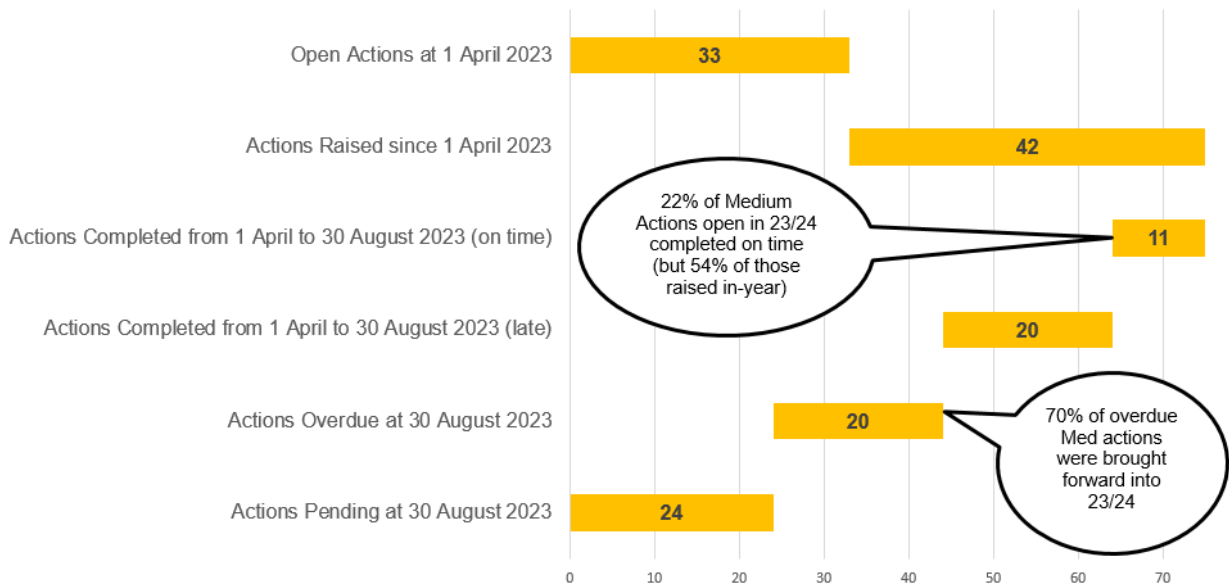


Figure 2: Medium Priority Action Completion

7.2 There remains a set of persistent actions that continue to impact performance. In general, completion rates are good and we are grateful for the continued focus provided by the Executive Management Team. Looking only at ‘current’ actions, completions rates have held up in 2023/24 compared with year end 2022/23. At that stage we reported ‘current’ action on time completion as 86% for high priority findings (100% in 23/24) and 72% for medium priority findings (54% for 23/24).

7.3 The tables below provide specific additional detail on overdue actions, starting with the nine High Priority actions overdue.

Audit Title & Report Date	Action Summary	Original and current due dates
VAT 6-Jul-21	Review partial exemption calculation for years from 2017/18	31-Dec-21 31-Dec-23
HMO Licensing & Enforcement 30-Jul-21	Annual license renewal checks	31-Dec-21
	Match unallocated payments to outstanding civil penalty notices (CPNs)	27-Nov-23

Audit Title & Report Date	Action Summary	Original and current due dates
	Pass unpaid CPN details to debt recovery	
	Add payment ref notice to CPNs	
Budget Monitor CYP/ COM 24-Aug-21	Set upper spending limits on ContrOCC system to match delegated responsibilities.	31-Dec-21 30-Sep-23
Payroll 8-Oct-21	Conduct reconciliation of payroll costing report to general ledger.	31-Dec-21 30-Sep-23
Academy IT 6-Jun-22	Conduct system disaster recovery testing	31-Oct-22 31-Jan-24
Homelessness 3-Oct-22	Conduct reconciliation between Locata system and housing register duty.	31-Mar-23 29-Mar-24

7.4 The table below summarises the 20 Medium Priority Actions overdue:

Audit Title & Report Date	# Actions Overdue	Earliest Due Date (original)	Latest Due Date (current)
Asset Management 3-Feb-21	1	30-Apr-21	30-Sep-23
School Finance 20-Apr-21	4	30-Jun-21	30-Sep-23
Banking 30-Apr-21	1	30-Jun-21	31-Dec-23
Accounts Receivable 20-May-21	1	30-Sep-21	30-Sep-23

Audit Title & Report Date	# Actions Overdue	Earliest Due Date (original)	Latest Due Date (current)
Main Accounting 2-Jul-21	1	31-Dec-21	31-Dec-23
Passenger Transport 23-Jul-21	1	31-Dec-21	30-Sep-23
Budget Monitoring CYP/COM 24-Aug-21	2	31-Oct-21	22-Dec-23
Client Care Contributions 17-Jan-22	1	31-Mar-22	31-Dec-23
Child Safeguarding QA 8-Sep-22	1	31-Aug-22	30-Sep-23
Homelessness 3-Oct-22	1	31-Oct-22	29-Sep-23
Air Quality Strategy 31-May-23	1	30-Jun-23	30-Sep-23
Voids Management 29-Jun-23	5	30-Jul-23	30-Sep-23

## 8. Financial implications

8.1. There are no financial implications arising direct from this report.

## 9. Legal implications

9.1. There are no legal implications arising direct from this report.

## 10. Equalities implications

10.1. There are no equalities implications arising direct from this report.

## **11. Climate change and environmental implications**

11.1. There are no climate change or environmental implications arising direct from this report.

## **12. Crime and disorder implications**

12.1. There are no crime and disorder implications arising direct from this report.

## **13. Health and wellbeing implications**

13.1. There are no health and wellbeing implications arising direct from this report.

## **14. Background papers**

14.1. There are no background papers not otherwise referenced in the report.

## **15. Report author and contact**

15.1. For any queries on the report please contact Rich Clarke, Head of Assurance on 020 8314 8730 or by email at [rich.clarke@lewisham.gov.uk](mailto:rich.clarke@lewisham.gov.uk).

## **16. Appendices**

- Appendix A – Internal Audit Charter 2023/24