



## Audit Panel

### **Report title: Internal Audit Annual Assurance Report 2020/21**

**Date:** 23 June 2021

**Key decision:** No.

**Class:** Part 1

**Ward(s) affected:** All

**Contributors:** Director of Corporate Resources

### **Outline and recommendations**

This report outlines work that has been carried out for the year ended 31 March 2021, which supports the Head of Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for 2020/21.

The Head of Internal Audit's opinion is that '**Satisfactory**' assurance can be placed on the adequacy and effectiveness of the Council's corporate system of internal control.

Members are asked to note this report.

## **1. Summary**

- 1.1. This report outlines work that has been carried out for the year ended 31 March 2021, which supports the Head of Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for 2020/21.
- 1.2. Internal Audit is satisfied that sufficient internal audit work has been undertaken, albeit on a reduced audit plan, to support an opinion about the adequacy and effectiveness of the Council's arrangements for governance, risk management and internal control (i.e. the system of internal control).
- 1.3. The Head of Internal Audit's opinion is that '**Satisfactory**' assurance can be placed on the adequacy and effectiveness of the Council's corporate system of internal control.

## **2. Recommendations**

- 2.1. It is recommended that the Audit Panel should note the content of this report.

### 3. Policy Context

- 3.1. The content of this report is consistent with the Council's policy framework. It support the priorities set out in the Corporate Strategy 2018-2022 and is particularly relevant to delivering a strong and resilient framework for prioritising action which has supported the organisation in the face of austerity and ongoing reductions in funding.
- 3.2. It supports all of the Council's priorities through effective risk management of its activities and improvement in the control framework.

### 4. Background

- 4.1. The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to provide an annual opinion, based upon and limited to the work performed during the year. This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Panel, which is designed to provide a reasonable level of assurance, subject to the inherent limitations described below and set out in **Annex 6**. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.
- 4.2. Internal audit work was performed in accordance with the Council's methodology, which conforms to the PSIAS. The Head of Internal Audit for 2020/21 was seconded from PricewaterhouseCoopers from August 2020. Internal Audit has been organisationally independent of the services under review, which has facilitated unlimited scoping of audit work and objectivity of audit activities. The performance of the Service against key indicators is summarised in **Annex 5**.
- 4.3. Due to the Covid-19 pandemic since March 2020, and the Council's priority to delivery critical frontline services, the availability of audit stakeholders and redeployment of Internal Audit staff to assist in delivering these services has impacted upon the number of audit days that could be made available for assurance work during first half of the year. A scaled back audit plan was agreed by Audit Panel in September 2020.
- 4.4. The annual Internal Audit report is timed to inform the organisation's Annual Governance Statement.

### 5. Head of Internal Audit's opinion

- 5.1. Internal Audit is satisfied that sufficient internal audit work has been undertaken, albeit on a reduced audit plan, to support an opinion about the adequacy and effectiveness of the Council's arrangements for governance, risk management and internal control (i.e. the system of internal control).
- 5.2. Definitions of the range of opinions that could be given are provided in **Annex 1**.
- 5.3. The Head of Internal Audit's opinion is that the system of internal control for 2020/21 is:

<b>Satisfactory</b>
<p>"I have considered all of the work undertaken and reported on by the Internal Audit Service, Anti-Fraud and Corruption Team, Risk Management and other sources of assurance available to the Council for the audit year 2020/21.</p> <ul style="list-style-type: none"><li>1. In my opinion, '<b>Satisfactory</b>' assurance can be placed on the adequacy and effectiveness of the Council's corporate system of internal control.</li><li>2. This opinion is expressed using the same scale used for internal audit report opinions. The scale ranges from Substantial and Satisfactory, through to Limited and No Assurances. Definitions are provided at <b>Annex 1</b>.</li></ul>

## Satisfactory

3. Whilst governance, risk management and control in relation to business critical areas is generally satisfactory, there are some areas of weakness and non-compliance in the framework of internal control which potentially put the achievement of objectives at risk. Improvements are required in those areas to enhance the adequacy and effectiveness of the system of internal control. In particular:
- We have identified a number of high and medium-rated weaknesses in individual assignments. However, we believe these are not significant in aggregate to the overall quality of the internal control system. None of our assignments identified any weaknesses that were assessed as critical risk; and
  - None of our assignments provided 'No Assurance'. In our view, the weaknesses identified in Limited assurance reports are isolated to the specific systems or processes reviewed.
  - On 23 March 2020, the UK was put into lockdown in response to the Covid-19 pandemic. The impact of the pandemic on all organisations has been significant and Internal Audit resources were reduced because the team was redeployed across the Council until August 2020. Therefore, the Audit Plan for the year was reduced, in agreement with the Audit Panel. As such, our opinion is based on a reduced scope and is subject to the identification of issues that could arise as a result of the emergency response to the pandemic.
4. There has been significant improvement in the implementation rate for management actions that have been agreed as a result of internal audit work. Tracking of managers' self-assessments of progress with the implementation of audit recommendations has concluded that 96% of agreed actions have been fully completed."

Further details are provided in Section 6: Basis of the Audit Opinion.

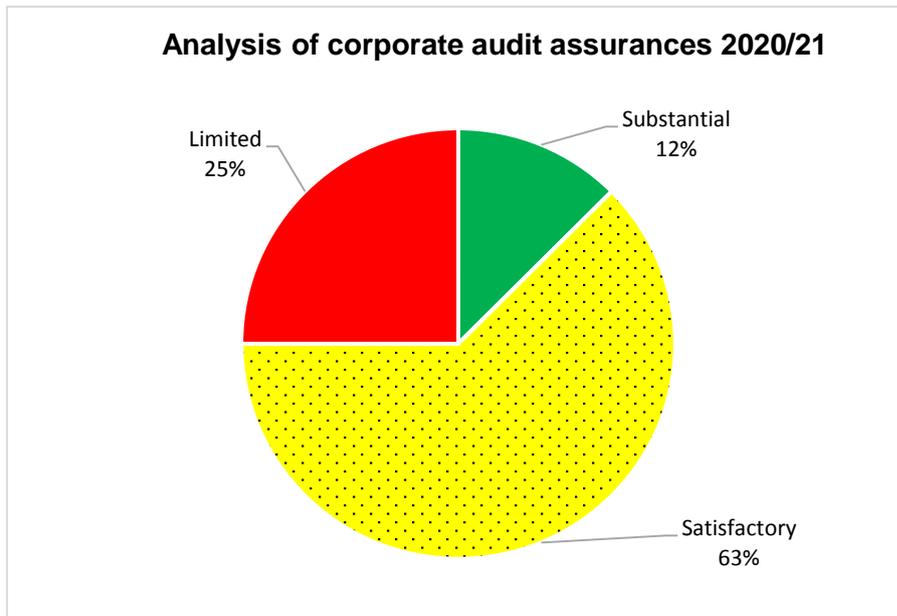
## 6. Basis of the Audit Opinion

- 6.1. In determining the overall opinion for 2020/21, consideration has been given to a number of key improvements to governance arrangements that have been identified by audit work, particularly the regular review of audit outcomes and managers' progress with implementation of audit recommendations by Directorate Management Teams and the Executive Management Team. The opinion is based on the following:
- 6.2. An Internal Audit Plan identifying 39 assignments for 2020/21 was approved by the Audit Panel in September 2020. This was designed to focus on key risks facing the Council and was updated throughout the year to ensure that Internal Audit continued to focus on key risks. There were eight audits cancelled or deferred and nine new assignments added to the plan. These changes are summarised in **Annex 3**. Only one of the deferred reviews relates to a significant financial audit (follow-up of 2019/20 audit for client contributions for adult care provision).
- 6.3. The plan did not include audits of schools. It was agreed by the Audit Panel that the assurance for this risk area would be deferred given that schools had not been operating under normal arrangements due to the Covid-19 pandemic and Internal Audit resources were reduced because the team was redeployed across the Council until August 2020.
- 6.4. Therefore, the annual opinion is based on 40 corporate reviews, 32 of which provide an assessment of the level of control in terms of an overall assurance opinion. The remaining assignments were not assessed as it was not appropriate to provide an audit opinion due to the type of review (for example grant certification or advisory/consultancy in nature).

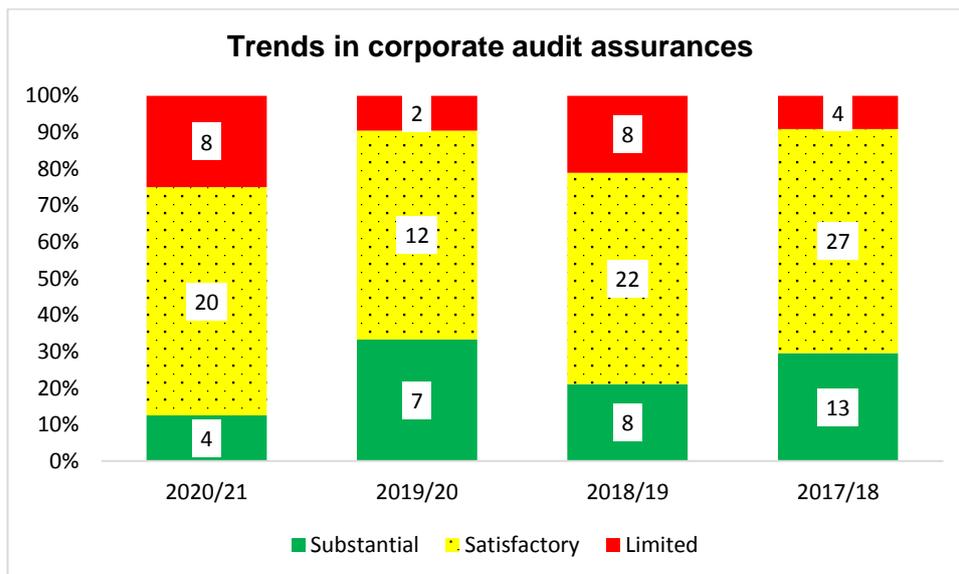
6.5. All the of the planned reviews have been completed to draft report stage and final reports have been issued for 63% of reviews. Details of all assignments undertaken during the year are provided in **Annex 2**.

**Assurances and risk profiles from all audits undertaken during the year**

6.6. Overall, positive assurances (Substantial and Satisfactory opinions) are provided for 75% of corporate audits, and negative assurances (Limited and No Assurance opinions) were provided for 25%. The chart below summarises the assurances provided for corporate audits undertaken in 2020/21.

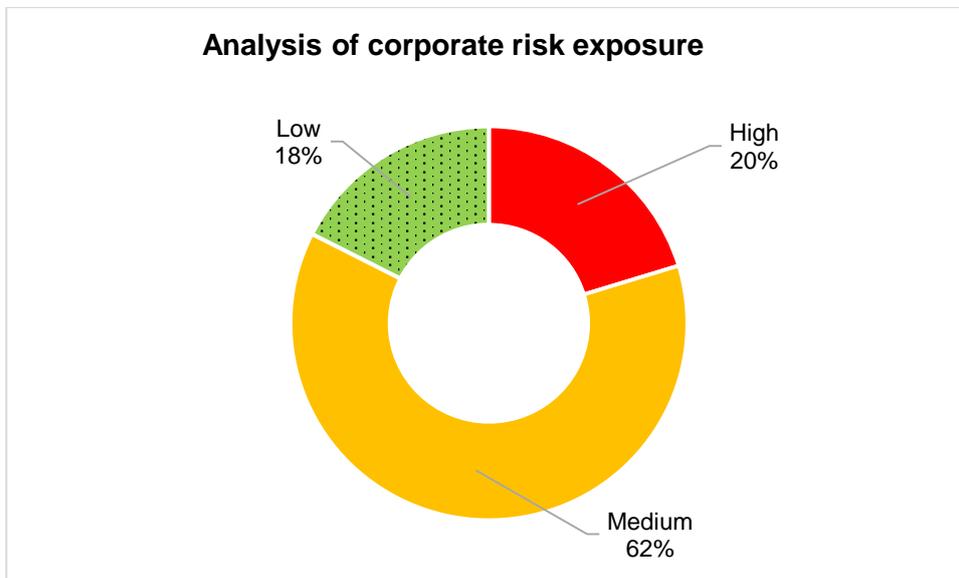


6.7. Assurances for 2020/21 can be compared to 2019/20 results when 90% achieved positive assurances and 10% with negative assurances. The trends for assurance opinions over the last four years are analysed in the following chart. This shows that the proportion of audits with overall negative assurances issued through the Internal Audit Plan has fluctuated, but there continues to be no subject areas reviewed with 'No' assurance.



6.8. The scope of each corporate audit was designed and agreed individually in consultation with the appropriate service manager, to ensure review of controls in place to address inherent and external risks that could prevent achievement of the service objectives. Many of the core financial audits were undertaken to achieve a more in-depth review than had been delivered in the past. Internal Audit identified 214 areas for improvement for which recommendations were

agreed through the corporate reviews conducted during 2020/21, including 43 assessed as High risk. The risk ratings for findings identified across all 2020/21 corporate reviews are summarised in the following chart:



6.9. The chart shows that the majority of issues identified (62%) were assessed as Medium risk (132 recommendations raised), with 20% (43 recommendations) assessed as High risk. This can be compared to 2019/20 when 149 recommendations were made, including 16 with High risk (11%). The increase in High-rated issues identified during 2020/21 can be attributed to improved focus on areas of concern and greater rigour around the assessment of risks arising.

### **Managers' implementation of improvements**

6.10. In order for the Council to derive maximum benefit from internal audit work, agreed actions should be implemented within reasonable timescales. Internal Audit confirm managers' progress with the implementation of improvements by two approaches:

- Follow-up reviews for all corporate service areas where a negative assurance opinion has been provided in the last audit;
- Tracking of managers' self-assessments of progress with implementing High and Medium-rated actions via an internal SharePoint site.

### **Follow-up reviews**

6.11. There were two follow-up audits planned for 2020/21. One of these: relating to client contributions for care provision, was cancelled because implementation of the recommendations was contingent upon the successful implementation of the ContrOCC upgrade (Adult Social Care finance software). However the software upgrade was not planned to go live until April 2021. As invoices are issued to service users four weeks in arrears, the first invoices were not issued until the end of April. Therefore it was not possible to provide assurance regarding implementation of audit recommendations for the benefit of transactions in 2020/21.

6.12. Follow-up of the 2019/20 Accounts Receivable and Debt Recovery audit found that nine out of 15 actions (60%) were fully implemented (or no longer applicable) and the remaining six actions were in progress. Of these, two were from a High risk recommendation, and the remaining four were from Medium risk recommendations. Responsible managers have attended Audit Panel meetings during the year to discuss progress and these actions have been re-raised in the 2020/21 audit.

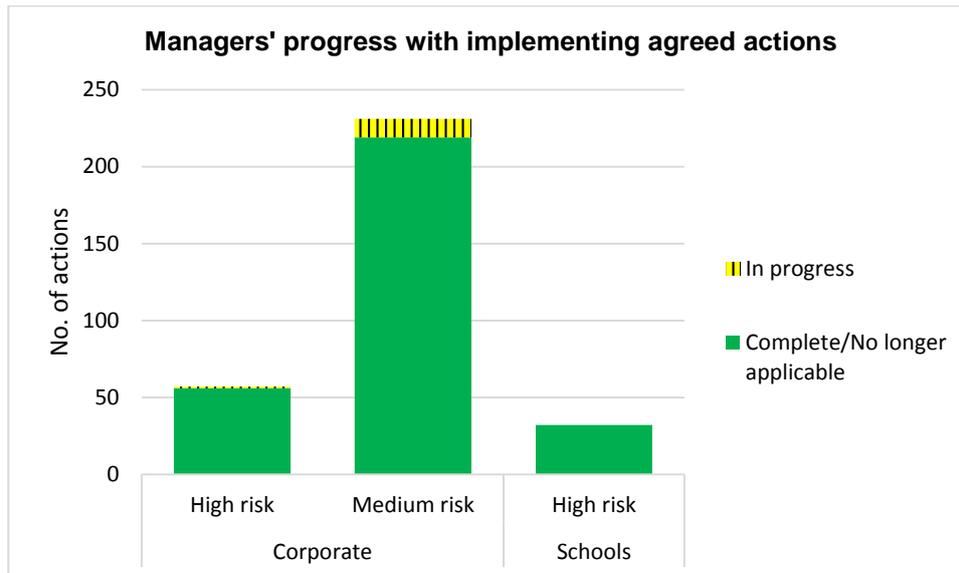
### **Tracking of managers' self-assessments of progress improvements**

6.13. In order for the Council to derive maximum benefit from internal audit work, agreed actions

should be implemented within reasonable timescales. As Members are aware, the Internal Audit team was redeployed for four months and service managers were dealing with new pressures and ways of working as a result of the Covid-19 pandemic, during which time progress with tracking and implementing actions was paused. However, since September 2020, Internal Audit has tracked the implementation of 288 corporate actions and 32 high-rated actions in schools.

- 6.14. By the date of the annual report, managers had assessed 96% of actions that were due to be implemented by 31 March 2021 as completed, including 99% categorised as High-risk. This can be compared against 56% implementation rate, which contributed to the annual assurance opinion for 2019/20. Analysis is provided in the following chart:

Chart 4: Managers' progress with implementing agreed actions



- 6.15. This outcome is a result of proactive steps that have been taken, which improved senior management support in overseeing the implementation of agreed recommendations, including: regular reporting to Directorate Management Teams and the Executive Management Team. Tracking of the outstanding progressed and deferred actions will continue during 2021/22.

## 7. Other sources of assurance

- 7.1. As part of the audit plan, reviews and consultancies were undertaken, for which it was not appropriate to provide an assurance opinion due to the nature of the assignment. These reviews were reported as 'Advisory/Consultancy' and included the following assignments:
- Review of Human Resources (HR) Policies: reliance was placed on work undertaken as part of the HR Services' strategic review of HR and Organisational Development, which was reported to the Head of Paid Service;
  - Post-implementation review of Oracle HR and Payroll – Security and Audit Trails;
  - Review of Remote Working Security Arrangements;
  - Grant certification for Supported Families;
  - Grant certification for Community Testing Programme;
  - Grant Certification for Compliance and Enforcement Surge Funding.

### Anti-Fraud & Corruption Team (A-FACT)

- 7.2. AFACT is responsible for conducting and managing fraud investigations for cases that arise internally and externally in relation to Council services. This work is conducted with support from the Council's Human Resources and Legal Services teams. The work arises from the

need for the Council to ensure confidence in the administration of public funds. Details of the work undertaken by A-FACT in 2020/21 are provided in a separate report.

### Risk Management

- 7.3. The Corporate Resources Directorate is responsible for ensuring the Council has an effective risk management strategy and policy in place. An internal audit of risk management arrangements has concluded that ‘Satisfactory’ assurance can be taken from the arrangements in place. Directorate Management Teams (DMTs) 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.
- 7.4. In addition to the risk registers being utilised for management purposes, the Audit Panel will receive quarterly reports on strategic risk management.

### Further sources of assurance

- 7.5. Assurance for the effective mitigation of risk and focus on improving internal control comes from other sources in addition to the work of Internal Audit. These sources are taken into consideration when preparing the annual assurance opinion and planning the work of Internal Audit for future years. In particular, external inspections and accreditation reviews and statutory transparency reporting requirements are helpful measures to assess the effectiveness of service practice and performance. For 2020/21, additional assurance has been provided from:
- Internal audit work relevant to the IT Shared Service undertaken by other members of the shared arrangement;
  - External auditors - Grant Thornton;
  - Ofsted – annual conversation following the formal review of Children’s Services in 2019;
  - The annual Legal Services accreditation;
  - CQC inspection of Adult Social Care services;
  - Monthly reporting to the Ministry of Housing, Communities and Local Government on the impact of the pandemic on income and expenditure, including Covid grants, with benchmarking against other London boroughs.

## 8. Analysis of internal audit findings

- 8.1. The audit assurances, number of issues and their risk ratings identified for all assignments conducted during 2020/21 are provided in **Annex 2**. Definitions of the assurance ratings and risk priorities can be found at **Annex 4**.
- 8.2. Internal Audit noted several areas of good practice throughout the Council and was able to give Substantial or Satisfactory assurance for 75% of the core internal audits completed.

### Financial control and fraud risk

- 8.3. Audits are undertaken annually on key financial processes and systems within the Council. The table below shows a comparison of the assurance opinions for the last three years for the core financial audits based on the opinions known at the time of writing.

Table 1: Assurance opinions for core financial systems

Core financial system	17/18	18/19	19/20	20/21	DoT
1. Client contributions for residential & domiciliary care (deferred to 2021/22)	SUB	LTD	LTD	N/a	N/a
2. Accounts payable	SAT	LTD	SAT	SAT	↔
3. Payments to childcare providers (Draft)	SAT	LTD	No opinion	SAT*	↗

Core financial system	17/18	18/19	19/20	20/21	DoT
4. Accounts receivable	SAT	LTD	LTD	SAT	↔
5. Payroll (Draft)	SUB	SAT	SAT	LTD*	↔
6. Non-current (fixed) assets	SUB	SAT	SAT	SAT	↔
7. Capital programme and expenditure	SAT	SAT	SAT	SAT	↔
8. Pension Scheme Administration	SAT	SAT	SUB	LTD	↘
9. Banking	SAT	SAT	No opinion	LTD	↘
10. Treasury management (Draft)	SUB	SUB	SUB	SUB*	↔
11. Housing benefit and CTRS	SUB	SUB	SUB	SUB	↔
12. Council tax	SUB	SAT	SAT	SAT	↔
13. Business rates (NNDR)	SUB	SUB	SUB	SUB	↔
14. Budget monitoring (Draft)	SAT	SAT	SUB	SAT*	↘
15. Main accounting (Draft)	SAT	n/a	SUB	SUB*	↔

<b>Key</b>	<b>SUB</b> Substantial	<b>SAT</b> Satisfactory	<b>LTD</b> Limited	<b>NAS</b> No Assurance
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↗	Improved since last year	↔	Same as last year	↘	Deteriorated since last year
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8.4. Details of key findings are provided in the following table:

Table 2: Key findings from audits of core financial systems

Financial System	Assurance	Key findings
Accounts payable	SAT	Five Medium-risk findings were identified relating to various compliance exceptions to evidence the operation of controls for reconciliations, timeliness of payments, authorisation of payments runs, verification checks for supplier set up and completion of IR35 assessment.
Payments to childcare providers	SAT*	<p><i>One High-risk finding was identified relating to:</i></p> <ul style="list-style-type: none"> <li><i>The agreements with providers could not be located for eight out of a sample of 25 placements, and signed agreements were not retained on the management information system (LCS) for a further five placements.</i></li> </ul> <p><i>In addition, four Medium-risk findings were identified relating to dependency on the Head of Service to approve payments, out of date procedure notes, review of payment runs and budget monitoring.</i></p>
Accounts receivable and debt recovery	SAT	<p>This audit reviewed procedures for raising invoices, debt recovery and reconciliations. Two High-risk findings were identified relating to:</p> <ul style="list-style-type: none"> <li>Debt recovery - delays in taking recovery action were identified, including sending reminder letters within the required timeframes; and</li> <li>Reconciliations - The Accounts Receivable and Accounts Receivable Refunds Reconciliations had not always been completed and authorised in a timely manner. There were also items of income</li> </ul>

Financial System	Assurance	Key findings
		<p>that had not been cleared and ongoing discrepancies that had not been resolved.</p> <p>In addition, two Medium-risk findings were identified. One of these related to raising invoices with the other related to debt recovery.</p>
Payroll	LTD*	<p><i>In the first audit since Oracle Payroll/HR was implemented in May 2020, three High-risk findings were identified as follows:</i></p> <ul style="list-style-type: none"> <li>• <i>Reconciliations of ' BACS to Salaries', were not able to be completed,</i></li> <li>• <i>Overpayments of salaries were not recorded or monitored,</i></li> <li>• <i>Gross to Net reports did not agree to the costing reports.</i></li> </ul> <p><i>In addition, five medium risk findings were identified related to compliance with controls for reconciliation of controls accounts, calculation of sick and maternity pay, completion of starter forms, deductions for voluntary third party payments, notifications of school staff and managers for processing leavers.</i></p>
Non-current (fixed) assets	SAT	<p>One High-risk finding was identified relating to valuations and impairment, as the contract for the provision of asset valuations was awarded without competition.</p> <p>In addition, two Medium-risk findings were identified relating to compliance with procedures for valuations and identifying additions and disposals.</p>
Capital programme and expenditure	SAT	<p>Five Medium-risk findings were identified, three of which related to compliance with good practice procedures for project approval and management, and two related to monitoring and reporting.</p>
Pension scheme administration	LTD	<p>In the first audit since Oracle Payroll/HR was implemented in May 2020, two High-risk findings were identified relating to:</p> <ul style="list-style-type: none"> <li>• Incorrect calculation of employee and employer contributions for employees on long term sick leave and maternity leave, which has resulted in underpayment of contributions into the pension fund;</li> <li>• Monthly payments to pensioners have not been reconciled against expectations.</li> </ul> <p>In addition, three Medium-risk findings were identified relating to compliance with procedures for transfers, pension payments and reconciliations.</p>
Banking	LTD	<p>Three High-risk findings were identified in relation to the following:</p> <ul style="list-style-type: none"> <li>• The balance of unallocated income on the Axis Income Management (AIM) system that not been cleared onto the general ledger, and was £76m as at January 2021 with a total of 5019 transactions dating back to May 2020.</li> <li>• Testing of a random sample of 15 fund transfers from the AIM system to fund accounts and/or the general ledger identified five that were not properly approved and five that lacked sufficient backing documentation.</li> <li>• The suspense account for unidentified income, was not being regularly reconciled. At the time of the audit, there was an unresolved variance of £53m, which was made up of 810 unidentified income transactions, including three large balances totaling £50m and 37 transactions relating to 2019/20.</li> </ul>

Financial System	Assurance	Key findings
		In addition, four Medium risk findings were identified relating to compliance with procedures for transaction management, reconciliations and information security.
Treasury management	SUB*	Three Medium risk findings were identified relating to compliance with procedures for investment management and reconciliations.
Housing benefit and CTRS	SUB	One Medium-risk finding was identified relating to insufficient review of monthly reconciliations between rent rebate and rent allowance transactions against the General Ledger.
Council tax	SAT	One High-risk finding was identified: <ul style="list-style-type: none"> <li>In-year as well as end of year differences identified in reconciliations between the council tax system (Academy) and Oracle were not being investigated. In addition, reconciliations were not being signed and dated by a reviewing officer.</li> </ul> In addition, one Medium-risk finding was identified which related to compliance with procedures for council tax billing.
Business rates (NNDR)	SUB	One Medium-risk issue was identified relating to insufficient review the periodic reconciliations between the business rates system and the general ledger.
Budget setting and monitoring	SAT*	<i>This audit reviewed budget monitoring arrangements within Adults' Social Care (ASC) and Children's Social Care (CSC) services, which use 'ContrOCC' to commission services and approve invoices. One High-risk finding was identified:</i> <ul style="list-style-type: none"> <li><i>The authorisations to spend given to budget holders and cost centre managers in ContrOCC for ASC had no upper limits set. In addition, the authorisations to spend in ContrOCC ASC and ContrOCC CSC were not aligned with the Council's financial management system, Oracle Cloud, authorisations to spend</i></li> </ul> In addition three Medium-risk issues were identified relating to budget accountability/responsibility and monitoring.
Main accounting	SUB*	Two Medium-risk issues were found relating to the need to update procedure notes delay in the preparation and review of both feeder system reconciliations and bank account reconciliations.

\*Note: audit is at draft report stage, therefore findings/assurances could change before the audit is finalised.

### Internal Control Issues

8.5. Limited assurances were issued for eight audits, which are summarised in Table 3.

Table 3. Limited Assurance audits (non-key financial systems)

Audit	Assurance	Recommendations			
		High	Medium	Low	Total
Payroll	Limited*	3	5	-	8
Pension scheme administration	Limited	2	3	2	7
Banking	Limited	3	4	-	7
Covid 19 – Governance Arrangement for Decisions and Ringfenced Grants	Satisfactory	-	3	1	4
	Limited	3	1	1	5
VAT	Limited*	4	-	-	4

Audit	Assurance	Recommendations			
		High	Medium	Low	Total
Housing of Multiple Occupation (HMO) - Licensing and Enforcement	Limited*	3	4	1	8
Domiciliary Care Block Contract Payments and Client Charging after Hospital Discharge	Limited*	4	2	1	7
Highways Contracts	Limited	2	6	3	11
<b>TOTAL</b>		<b>24</b>	<b>28</b>	<b>9</b>	<b>61</b>

\* Note: audit is at draft report stage, therefore findings/assurances could change before the audit is finalised.

- 8.6. Where internal control issues were identified, the perceived risk exposure was assessed to facilitate prioritising of remedial actions. The following table provides the number of actions per control issue, which were identified in all completed audits relating to 2020/21.

Table 4: Analysis of internal control issues identified from internal audit work

Type of control	2019/20	2020/21	Direction of travel
Authorisation	10	12	↓
Compliance / Legal	40	48	↓
Financial / Budget Monitoring	15	13	↑
Governance	16	22	↓
Information Security	8	10	↓
IT	22	2	↑
Policies	7	4	↑
Procedures	66	60	↑
Reconciliations	21	14	↑
Separation of Duties	-	1	↓
Other	7	1	↑
<b>Total</b>	<b>212</b>	<b>187</b>	

### Implications for the Annual Governance Statement

- 8.7. Table 4 shows that there have been improvements in the majority of control types when compared to 2019/20.
- 8.8. For the benefit of the Council's Annual Governance Statement (AGS), it can be concluded that the common areas for improvement arising from 2020/21 audit work relate to:
- Procedures (32%)
  - Compliance / Legal (26%)
  - Governance (12%)
- 8.9. In addition, the risks in respect of Limited assurance audits shown in Table 3 are areas of focus for improvement, particularly those relevant to financial control, including payroll, pensions, banking, VAT and domiciliary care block contracts. These areas will be the subject of follow-up audits during 2021/22.

## 9. Role of the Head of Internal Audit

- 9.1. CIPFA's Statement on "The role of the Head of Internal Audit in public service organisations, 2019" states that the Head of Internal Audit role 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;
- 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

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

## **10. Financial implications**

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

## **11. Legal implications.**

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

## **12. Equalities implications**

1.3. There are no equalities implications arising directly from this report.

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

1.4. There are no climate change or environmental implications arising directly from this report.

## **14. Crime and disorder implications**

1.5. There are no crime and disorder implications arising directly from this report.

## **15. Health and wellbeing implications**

1.6. There are no health and wellbeing implications arising directly from this report.

## **16. Background papers**

1.7. There are no background papers.

## **17. Glossary**

<b>Term</b>	<b>Definition</b>
Assurance Opinion	An independent assessment on the controls in place.
Recommendation	A suggestion made by internal audit on how to improve controls.

Term	Definition
Management Action	The actions that management have agreed to do to implement the recommendation made by internal audit.
Control	A process that is in place to facilitate achievement of an objective or to prevent or reduce a risk from occurring.

## 18. Report author and contact

If there are any queries on this report, please contact: Christine Webster, Interim Head of Internal Audit, on 202 8314 5617 or David Austin, Director of Corporate Resources, on 020 8314 9114, or email them at: [christine.webster@lewisham.gov.uk](mailto:christine.webster@lewisham.gov.uk) or [david.austin@lewisham.gov.uk](mailto:david.austin@lewisham.gov.uk).

## Annex 1: Annual Opinion types

The table below sets out the four types of opinion that Internal Audit uses to describe annual assurance, along with an indication of the types of findings that may determine the opinion given. The Head of Internal Audit has applied professional judgement when determining the appropriate opinion so the guide given below is **indicative rather than definitive**.

Type of opinion	Indication of when this type of opinion may be given
<b>Substantial</b>	<ul style="list-style-type: none"> <li>• A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and</li> <li>• None of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<b>Satisfactory</b>	<ul style="list-style-type: none"> <li>• Medium risk rated weaknesses identified in individual assignments that are <b>not significant in aggregate</b> to the system of internal control; and/or</li> <li>• High risk rated weaknesses identified in individual assignments that are <b>isolated</b> to specific systems or processes; and</li> <li>• None of the individual assignment reports have an overall classification of critical risk.</li> </ul>
<b>Limited</b>	<ul style="list-style-type: none"> <li>• Medium risk rated weaknesses identified in individual assignments that are <b>significant in aggregate but discrete parts</b> of the system of internal control remain unaffected; and/or</li> <li>• High risk rated weaknesses identified in individual assignments that are <b>significant in aggregate but discrete parts</b> of the system of internal control remain unaffected; and/or</li> <li>• Critical risk rated weaknesses identified in individual assignments that are <b>not pervasive</b> to the system of internal control; and</li> <li>• A <b>minority</b> of the individual assignment reports may have an overall report classification of either high or critical risk.</li> </ul>
<b>No Assurance</b>	<ul style="list-style-type: none"> <li>• High risk rated weaknesses identified in individual assignments that <b>in aggregate are pervasive</b> to the system of internal control; and/or</li> <li>• Critical risk rated weaknesses identified in individual assignments that are <b>pervasive</b> to the system of internal control; and/or</li> <li>• <b>More than a minority</b> of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<b>Disclaimer opinion</b>	<ul style="list-style-type: none"> <li>• An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either:               <ul style="list-style-type: none"> <li>- Restrictions in the audit programme agreed with the Audit Panel, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or</li> <li>- We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.</li> </ul> </li> </ul>

## Annex 2: 2020/21 Internal Audit Work

Audit	Assurance level	Final report	High	Medium	Low	Total
<b>Chief Executive's Services</b>						
21 - HR Policies	Advisory / Consultancy	27/04/21	2	1		3
22 - Transition Plans (Cancelled)						
24 - Consultation Process (Cancelled)						
44 - COVID 19 - Governance Arrangements For Decisions and Ringfenced Grants	Limited	29/03/2021	3	5	2	10
99 - Supporting Families Programme Grant Certification 20-21	N/a	Complete				
<b>Children &amp; Young People</b>						
14 - Payments to Childcare Providers and Foster Carers for Looked After Children - 20-21	Satisfactory*	TBC	1	4	1	6
20 - Children's Social Care (CSC) Improvement Progress	Substantial	Complete				0
31 - Early Help Service Transformation (Deferred)						
33 - Section 17 - Financial Assistance Payments	Satisfactory*	TBC		1		1
35 - Schools Websites	Satisfactory	02/03/2021		8	2	10
46 - Passenger Transport - Financial Management	Satisfactory*	TBC	1	6		7
<b>Community Services</b>						
29 - MASH - Adults (Deferred)						
38 - Arranging Care Team (Deferred)						
43 - Violence against Women and Girls, Community and Refuge Service - Contract Monitoring	Satisfactory	15/03/2021		6		6
45 - Leisure Management (Deferred)						
47 - Domiciliary Care Block Contract Payments and Client Charging after Hospital Discharge	Limited*	TBC	4	2	1	7
49 - Community Testing Programme Grant Certification	N/a	Complete				
F01 - Client Contributions for Care Provision Follow up on 19-20 (Deferred)						
<b>Corporate Resources</b>						
01 - Accounts Payable (Key Controls) 20-21	Satisfactory	08/06/2021		5		5
02 - Accounts Receivable and Debt Recovery (Key Controls) 20-21	Satisfactory	20/05/2021	2	2	3	7
03 - Asset Management 20-21	Satisfactory	03/02/2021	1	2	4	7
04 - Banking 20-21	Limited	30/04/2021	3	4		7

Audit	Assurance level	Final report	High	Medium	Low	Total
05 - Budget Monitoring for Children and Young People and Community Services	<i>Satisfactory*</i>	TBC	1	3		4
06 - Business Rates (Key controls) 20-21	<i>Substantial</i>	21/04/2021		1		1
09 - Council Tax (Key controls) 20-21	<i>Satisfactory</i>	10/06/2021	1	1		2
11 - Housing Benefit and Council Tax Reduction Scheme (CTRS) (Key controls) 20-21	<i>Substantial</i>	21/04/2021		2		2
12 - Main Accounting 20-21	<i>Substantial*</i>	TBC		2	1	3
15 - Payroll 20-21	<i>Limited</i>	TBC	3	8		11
16 - Pension Scheme Administration 2020-21 (Core Controls)	<i>Limited</i>	10/05/2021	2	3	2	7
17 - Treasury Management 20-21	<i>Substantial*</i>	TBC		3		3
18 - Relief and Support Allocation - Covid 19	<i>Satisfactory</i>	04/02/2021		6	4	10
23 - School Finance 2020/21	<i>Satisfactory</i>	20/04/2021		6	2	8
25 - VAT	<i>Limited*</i>	TBC	4			4
27 - Tendering and Procurement of Contracts	<i>Satisfactory</i>	11/01/2021		5	2	7
30 - Risk Management Framework	<i>Satisfactory*</i>	TBC		7	1	8
36 - Smarter Tech Roll Out Project	<i>Satisfactory*</i>	TBC	2	2		4
37 - Project - liquid logic / Controcc	<i>Satisfactory*</i>	TBC	1	2	1	4
39 - Post Implementation Review of Oracle HR / Payroll	<i>Advisory / Consultancy</i>	Complete	6	5	3	14
41 - IT Audit Needs Assessment	N/a	N/a				
50 - Remote Working Review	<i>Advisory / Consultancy</i>	TBC		3		3
Compliance and Enforcement Surge Funding Grant Certification	N/a	Complete				
<b>Housing Regeneration &amp; Public Realm</b>						
07 - Capital Expenditure 20-21	<i>Satisfactory</i>	29/03/2021		5		5
08 - Private Sector Housing - Leasing						
19 - COVID-19: Death Management and Registration Services (Cancelled)						
26 - Building for Lewisham Programme	<i>Satisfactory</i>	05/03/2021		7	2	9
28 - Housing of Multiple Occupation (HMO) - Licensing and Enforcement	<i>Limited*</i>	TBC	3	4	1	8
32 - Rough Sleeping Initiative Funding	<i>Satisfactory*</i>	TBC		6	1	7
34 - Refugee Resettlement Programme - Contract Management	<i>Satisfactory</i>	01/02/2021	2	1	2	5
48 - Highways Contracts	<i>Limited</i>	10/05/2021	2	6	3	11

### Annex 3 - Changes to the Internal Audit Plan

Dir	Audit	Change	Reason
Audits added to the plan			
COM	Covid – Community testing grant usage	Additional	Declaration of grant usage return to DHSC required Head of Audit sign-off
COM	2020/21-47 - Domiciliary Care - Block Contract Payments	Additional	Requested by management
COR	IT audit – LiquidLogic / Controcc project	Additional	Allocation of IT audit days
COR	IT audit – Remote working	Additional	Allocation of IT audit days
COR	IT audit - Oracle Payroll / HR Post Implementation Review	Additional	Allocation of IT audit days
COR	Compliance and Enforcement Surge Funding Grant Certification	Additional	Declaration of grant usage return to DHSC required Head of Audit sign-off
CYP	2020/21-46 - Passenger Services - Finance Management	Additional	Requested by management
HRPR	Refugee Resettlement Programme - Contract Management	Additional	Audit of contract management split
HRPR	2020/21-48 - Highways Contracts	Additional	Requested by management
COM	2020/21-29 - MASH - Adults	Deferred	MASH team not yet in place
Audits cancelled or deferred from the plan			
HRPR	2020/21-19 - COVID-19: Death Management and Registration Services	Cancelled	Additional COVID pressures on service
CEX	Consultation Processes	Deferred	Deferred for consideration in 20/21
CEX	2020/21-22 - Transition Plans	Deferred	Deferred for consideration in 20/21
COM	Arranging Care Team	Deferred	Deferred as a separate review of adult social care is being undertaken
COM	Leisure Management	Deferred	Deferred until contractual arrangements are stabilised.
COM	Follow-up of client contributions for care provision	Deferred	Deferred until Controcc system has been implemented
COM	2020/21 - F01 - Client Contributions for Care Provision Follow up on 19-20	Deferred	Implementation of recommendations was contingent upon go live of invoicing through ContrOCC, which was not completed until April 2021
CYP	2020/21-31 – Early Help Service Transformation	Deferred	Start of the audit was delayed to allow time for embedding of new governance arrangements

## Annex 4: Basis of internal audit assurance classifications

### Explanations for Assurance Opinion

Each 'assurance' internal audit review is assessed with an opinion on the standard of controls in place based on the fieldwork conducted. The following table explains these opinions.

Assurance Opinion	Definition
★ Substantial	A strong framework of controls is in place to ensure that the service area is likely to achieve its objectives. The controls in place are consistently applied or with only minor lapses.
● Satisfactory	A sufficient framework of controls is in place, but could be strengthened to improve the likelihood of the service area achieving its objectives. The controls in place are applied, but with some lapses.
▲ Limited	There are insufficient controls in place. This increases the likelihood of the service area not achieving its objectives. Where controls do exist, they are not consistently applied.
■ No Assurance	The framework of controls is inadequate. This significantly increases the likelihood that the service area will not achieve its objectives. Where controls do exist, they are not applied.

### Definition of Category of Recommendation

Internal Audit rates each recommendation as High, Medium or Low. This rating indicates to management the risk exposure from issues identified in the audit and the importance of implementing the recommendation.

Rating	Definition
High	It is crucial that this recommendation is implemented urgently. This will ensure that the service area will significantly reduce the risk of not meeting its objectives.
Medium	Implementation of this recommendation should be completed 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.

## Annex 5: Performance of the Internal Audit Service

### Key performance indicators (KPIs)

The Internal Audit team aims to provide an efficient and high quality service. Therefore, our performance against a set of KPIs is shown in the table below:

KPI	Target	2020/21 results	Comments
Proportion of plan delivered	90%	100%	Although not delivered by 31 March, 100% of planned audits have been delivered to draft report stage in time for the annual report.
Proportion of high and medium risk recommendations implemented	75%	60%	Results from one follow-up review conducted.
	75%	96%	Results from tracking of managers' self-assessment of progress with implementing corporate actions.
Average customer satisfaction score meets or exceeds acceptable level	80%	86%	Results are based on five audit satisfaction questionnaires returned from 19 final reports.
Draft audit reports to be issued within 20 working days of the completion of audit fieldwork.	20 days	20 days	Results are based on average days for 29 audits reaching draft report stage

### Quality assurance and improvement programme

PSIAS require that Internal Audit develops and maintains a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. Periodic reviews of the quality of internal audit work are completed internally and the Head of Internal Audit reviews all draft audit reports. Planning and delivery of the Service (including this Annual Assurance) has been done in conformance with the requirements of the PSIAS. The production of key metrics to demonstrate the performance of the team has been set up and are reported above.

### Compliance with Public Sector Internal Audit Standards

An external independent peer review of the Internal Audit service against the PSIAS was conducted in 2016, which concluded that the Internal Audit service 'generally conforms' to the PSIAS, with no areas of non-conformance being identified. All actions arising from the review have been implemented. The next review was due by March 2021 due to the impact of Covid on working arrangements this has not been possible and the review has now been set up for delivery by a peer Council during 2021/22.

In the meantime, Internal Audit has undertaken a self-assessment of compliance with the PSIAS. The assessment for 2020/21 found some areas for improvement, which have been incorporated into the QAIP for 2021/22. In particular, it was identified that the Service has not produced an internal audit strategy covering more than one year. This was due to the pending restructure of the Finance function which is still ongoing. However, a strategy will be produced during 2021/22. In addition, more regular reporting of performance indicators will be undertaken.

## **Annex 6: Limitations inherent to the internal auditor's work**

Internal Audit work has been performed subject to the limitations outlined below.

### **Opinion**

The annual audit opinion does not imply that Internal Audit has reviewed all risks relating to the organisation. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance over the operation of the system of internal control.

The opinion for individual audits is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit Panel should be aware that the opinion may have differed if the programme of work or scope for individual reviews was extended or other relevant matters were brought to Internal Audit's attention.

### **Internal control**

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### **Future periods**

Internal Audit's assessment of controls relating to Lewisham Council is for the period 01/04/20 to 31/03/21. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate.
- The specific time period for each individual internal audit is recorded within each audit report.

### **Responsibilities of management and internal auditors**

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan work so that it has a reasonable expectation of detecting significant control weaknesses and, if detected, Internal Audit shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and the team's examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.