Lewisham

Audit Panel

Report title: Proposed Internal Audit Plan and Internal Audit Charter 2021-22 and Progress Update

Date: 23 June 2021
Key decision: No.
Class: Part 1
Ward(s) affected: All
Contributors: Director of Corporate Services

Outline and recommendations

The proposed internal audit plan for 2021/22 has been developed using a risk-based approach and consists of 600 days, including 440 days for corporate and 160 days for school audits. These days are allocated across 67 audits, 41 covering the Council's service directorates and 26 covering schools. The proposed plan is presented in detail at Annex 1 of this report.

Public Sector Internal Audit Standards (PSIAS) require that an internal audit charter is approved annually, to formally establish the purpose, authority and responsibility of internal audit. This is presented in Annex 2.

Progress with the delivery of internal audit work since the last report to Audit Panel in February 2021 is reported, summarising the outcomes from completed audits and providing details of 'Advisory/Consultancy' reviews and audits that have been assessed as having 'Limited' assurance.

Members are asked to approve the 2021/22 audit plan and charter and note the progress on delivery of internal audit work as set out in this report.

1. Summary

1.1. The Public Sector Internal Audit Standards (PSIAS) require annual planning of internal audit work to support an objective assessment of the arrangements for governance, risk management and internal control. This report describes the approach to developing internal audit work for 2021/22 and sets out the proposed internal audit plan at **Annex 1**. An internal audit charter is presented at **Annex 2**, which sets out the framework for the conduct of internal audit services.

1.2. Progress with internal audit work since the last report to Audit Panel in February 2021 is also presented in this report with details of 'Limited' assurance audits provided in **Annex 3.**

2. Recommendations

2.1. It is recommended that the Audit Panel should:

- approves the 2021/22 internal audit plan

- approve the internal audit charter for 2021/22, and
- note the progress with internal audit delivery.

3. Policy Context

3.1.   The content of this report is consistent with the Council's policy framework.   It supports 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 recommending improvements in the internal control framework..

4. Background

4.1.   The Public Sector Internal Audit Standards (PSIAS) require annual planning of internal audit work to support the Council with an objective assessment of the arrangements for governance, risk management and internal control. This report describes the approach to developing internal audit work for 2021/22 and sets out the proposed internal audit plan at Annex 1. An internal audit charter is presented at Annex 2, which sets out the framework for the conduct of internal audit services.

4.2.   Progress with internal audit work, which has been undertaken since the last report to Audit Panel in February 2021, is also presented.

4.3.   Internal Audit is a statutory service, which aims to provide independent assurance to the Audit Panel, Executive Director of Corporate Resources (who is the Council's 'Section 151' 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.

4.4.   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.

4.5.   This report summarises the methodology by which the programme of audit work has been identified and sets out the proposed audits for 2021/22.

5. Internal audit plan for 2021/22

Approach to audit planning

5.1.   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 and directorate risk registers have been reviewed to ascertain the Council's key risks, which have been mapped against 'auditable units' related to the Council's objectives

5.2.   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.

5.3. Internal audit has 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.

5.4. 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 has been considered in the development of the audit plan. Given the ongoing nature of the pandemic as well as other risks that may arise, the plan may require amendment or review during the year.

5.5. The plan has been developed in consultation with directorate management teams (DMTs), executive management team (EMT), the external auditor and chair of the Audit Panel.

Audit Delivery approach

5.6. Internal audit work will be undertaken to evaluate and improve 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 recommending 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 or No Assurance.

5.7. 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 PricewaterhouseCoopers (PwC), school audits from Mazars, and led by a seconded Head of Internal Audit from PwC. It is envisaged that this arrangement will continue until a permanent Head of Assurance can be recruited.

5.8. 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.

Proposed Internal Audit Plan for 2021/22

5.9. Using the approach set out above, an audit plan for 2021/22 has been developed, focusing on the most significant risk areas across the Council. This has been discussed and agreed with DMTs and EMT and is now subject to Audit Panel approval.   The proposed plan is provided at **Annex 1**, which shows the risk register scores, proposed scope for each area, estimated requirement of audit days and preferred timing.

5.10. The following chart analyses the audits required to deliver the proposed Internal Audit plan, which shows coverage of directorates.

Chart 1: 2021/21 Audit Plan – Directorate Coverage
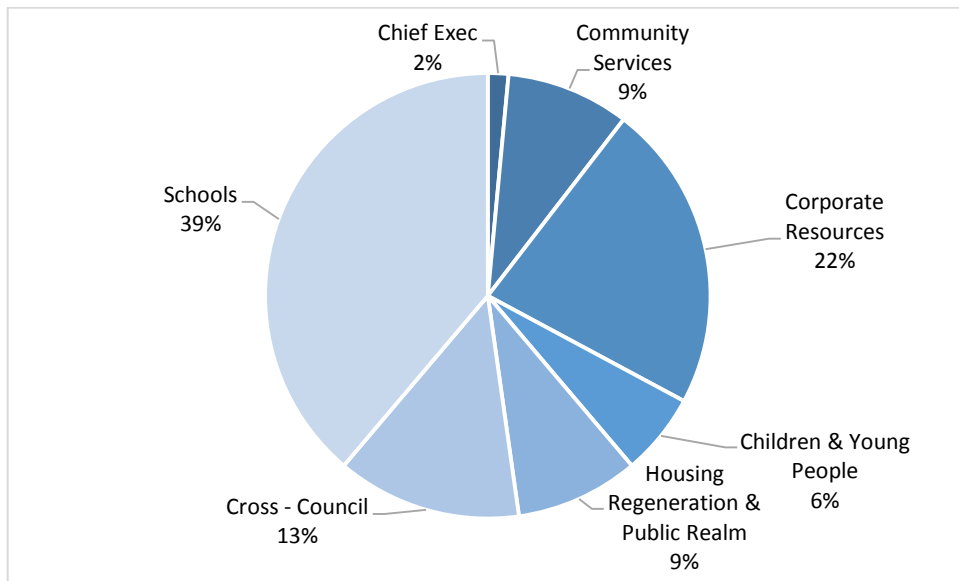
5.11.   It is estimated that the audit assurance for 2021/22 can be delivered with 600 audit delivery days. With the exception of the IT audit requirement and schools audit work, which will be resourced externally, sufficient resources to complete this plan are present with a full complement of the in-house team. There are currently 41 corporate assignments and 26 school audits identified in the plan. The significant focus on schools reflects the risk arising from devolution of control and a policy to review all schools in a three-year cycle. The schools are required to contribute to the cost of the audit service, which covers the resources required to deliver their audits. In additon, the days for corporate audits is reduced to take account of delayed completion of 2020/21 work, which has arisen due to the impact of the Covid 19 pandemic. Analysis of the proposed timing for corporate audit start dates is set out in the following chart. School audits will be undertaken throughout the year.

Chart 2: Analysis of preferred timing for corporate audit start
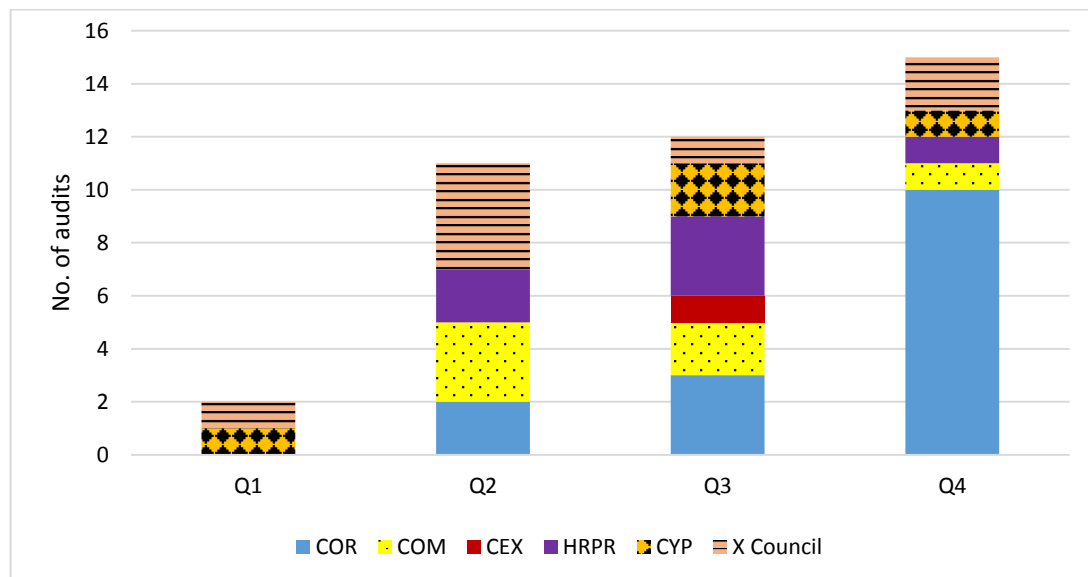
5.12.   Work will be undertaken throughout the year to deliver the school audit plan and to track managers' progress with the implementation of internal audit recommendations. It is noted that a large number of Corporate Resources audits are currently planned for Q4, which reflects the need for sufficient transactions to provide assurance on the effectiveness of control for key financial systems. However, we will work with management to reduce the impact on services at this busy time of year.

5.13. 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.

6. Internal Audit Charter 2021/22

6.1 The Public Sector Internal Audit Standards (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**. This sets out the principles underpinning the Council's internal audit approach, including requirements of management to facilitate audit work.

7. Progress with delivery of the Audit Plan

7.1. Since the last progress update to Audit Panel in February 2021, 22 assignments from the 2020/21 audit plan have been completed. Details are summarised in the following table, including audit assurance opinions and recommendations raised:

Table 1 – Outcomes for completed 2020/21 audits

Audit	Assurance level	Recommendations			
		High	Medium	Low	Total
Corporate Resources					
01 - Accounts Payable (Key Controls) 20-21	Satisfactory		5		5
02 - Accounts Receivable and Debt Recovery (Key Controls) 20-21	Satisfactory	2	2	3	7
03 - Asset Management 20-21	Satisfactory	1	2	4	7
04 - Banking 20-21	Limited	3	4		7
06 - Business Rates (Key controls) 20-21	Substantial		1		1
09 - Council Tax (Key controls) 20-21	Satisfactory	1	1		2
11 - Housing Benefit and Council Tax Reduction Scheme 20-21	Substantial		2		2
16 - Pension Scheme Administration 2020-21	Limited	2	3	2	7
18 - Relief and Support Allocation - Covid 19	Satisfactory		6	4	10
23 - School Finance 2020/21	Satisfactory		6	2	8
39 - Post Implementation Review of Oracle HR / Payroll	Advisory	6	5	3	14
Compliance and Enforcement Surge Funding Grant Certification	N/a				
Chief Executive's Services					
21 - HR Policies	Advisory	2	1		3
44 - COVID 19 - Governance Arrangements For Decisions	Satisfactory		3	1	4
44 - COVID 19 - Governance Arrangements for Ringfenced Grants	Limited	3	1	1	5
99 - Supporting Families Programme Grant Certification 20-21	N/a				
Children & Young People					
20 - Children's Social Care Improvement Progress	Substantial				0
35 - Schools Websites	Satisfactory		8	2	10

Audit	Assurance level	Recommendations			
		High	Medium	Low	Total
Community Services					
43 - Violence against Women and Girls, Community and Refuge Service - Contract	**Satisfactory**		6		6
49 - Community Testing Programme Grant Certification	N/a				
Housing, Regeneration and Public Realm					
07 - Capital Expenditure 20-21	**Satisfactory**		5		5
26 - Building for Lewisham Programme	**Satisfactory**		7	2	9
48 - Highways Contracts	**Limited**	2	6	3	11
Total		**22**	**74**	**29**	**125**

7.2. This shows that 125 recommendations for improvement have been identified, 22 of which have been categorised as High risk. Actions have been agreed with management to address the risks identified.

7.3. Four subject areas have been assessed as providing Limited assurance, as there were insufficient controls in place to ensure that service objectives would be adequately achieved, or where in place, there was failure to fully comply with controls. Details of key findings for completed audits with Limited assurances are set out in the extracts from Executive Summaries provided in **Annex 3**. Definitions of audit assurance levels are provided in **Annex 4**.

7.4. In addition, two 'Advisory/Consultancy' assignments have been completed, details of which are provided in the following sections:

Oracle HR / Payroll Security and Audit Trails.

7.5. In recognition of the second phase of the Oracle Cloud Programme, which went live in May 2020 to implement HR Absence, Payroll and Self Service, this assignment was commissioned from PwC to to provide assurance over the effectiveness of the security arrangements in place. A proprietary tool was used to analyse potential segregation of duty (SoD) conflicts and review audit trails within the live Oracle HR/Payroll applicatio., Six High-risk findings were identified as follows:

- Roles were not assigned to users to enforce segregation between key HR and Payroll activities.

- Users had access to system administration and transactional functionality, increasing the risk of a user changing sensitive payroll configurations and processing incorrect payroll transactions.

- There were several instances where both sides of a conflict were inherited from the same role. This indicates a weakness in the role design as it is impossible to segregate these conflicts from users who are assigned these roles.

- IT and support users had widespread access and role assignment.

- Generic accounts were identified which enabled elevated access in the system.

- Audit trails were not enabled for important payroll objects such as element entry, assigned payroll and personal payment method. Without these configurations it is not possible to install a proactive review process to detect inappropriate transactions which could be made as a result of the excessive user access in the system

7.6. Five Medium-risk issues were also identified relating to SoD conflicts, access assigments and review processes. Findings were discussed with management and an action plan was agreed to resolve the issues identified by 31 July 2021.

HR policies.

7.7. This review was undertaken alongside a strategic review of HR and Organisational Development (OD), which was commissioned from a consultant. Recommendations from the strategic review had been accepted by the Chief Executive and a management action plan was being determiined for agreement with EMT. The audit identified two High-risk and one Medium risk recommendations, which were incorporated into this management action plan. The High-risk findings related to the following:

7.8. It was not part of the terms of reference of the strategic review to address or make recommendations about the process for future policy review. From a list of 62 policies and guidelines, the date of the last review was not known, or was four or more years ago, for 25.

7.9. The strategic review did not include governance arrangements for HR policies and procedures. We have identified a lack of clarity with regards to the governance arrangements in place or proposed to be designed into new arrangements to ensure risk-based monitoring of compliance with the HR policies when they are updated.

7.10. Work has commenced towards delivery of the 2021/22 audit plan, as shown in the following table:

Table 2: Progress with 2021/22 audits

Directorate	Audit	Status
CYP	Early Years Transformation	Fieldwork in progress
CYP	Coopers Lane Primary School	Planned to commence 28 June 2021
CYP	Baring Primary School	Planned to commence 28 June 2021
CYP	All Saints Primary School	Planned to commence 2 July 2021
Cross Council	Climate Change Strategy	Audit being scoped

7.11. Tracking of managers' progress with the implementation of internal audit recommendations is ongoing. Since September 2020, Internal Audit has tracked the implementation of 288 corporate actions and 32 High-rated actions in schools. As at the date of this report, managers had assessed 96% of actions as completed, including 99% that were categorised as High risk.

8. Financial implications

There are no financial implications arising directly from this report.

9. Legal implications.

The Accounts and Audit Regulations 2015, as amended in 2021, rquire the Council to undertake and effective internal audit, to evaluation the effectiveness of its gvoernance, risk management and internal controls processes. This requirement is delivered in accordance with the Public Sector Internal Audit Standards 2017.

10. Equalities implications

There are no equalities implications arising directly from this report.

11. Climate change and environmental implications

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

12. Crime and disorder implications

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

13. Health and wellbeing implications

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

14. Background papers

There are no background papers.

15. Glossary

Term	Definition
Assurance Opinion	An independent assessment on the controls in place.
Recommendation	A suggestion made by internal audit on how to improve controls.
Management Action	The actions that management have agreed in order 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.

16. 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 Services, on 020 8314 9114, or email them at: christine.webster@lewisham.gov.uk or david.austin@lewisham.gov.uk.

Annex 1 – Proposed Internal Audit Plan for 2021/22

Lead Directorate	Risk score	Potential Audit	Days	Proposed Timing
Corporate Resources				
COR	16	Payroll	12	Q4
		Accounts Payable	10	Q4
		Accounts Receivable	10	Q4
		Council tax	8	Q4
		NNDR	8	Q4
		Pensions	10	Q4
		Housing Benefit & Council Tax Reduction Scheme	8	Q4
		Treasury management	10	Q4
		Asset Management	10	Q4
		Banking	10	Q3
		Main Accounting.	10	Q4
COR	15	Review of information security arrangements	12	Q2
COR	12	Office 365 audit	12	Q2
COR	12	Audit of a key application, such as Academy (Revenues & Benefits for income management)	12	Q3
COR		Follow up of Limited assurance audit - Covid governance/ring-fenced grants	5	Q3
Community Services				
COM	25	Review of budget management, with focus on demand-led services, such as Arranging Care Team	12	Q3
COM	12	Review of partnerships working arrangements for a key service area	15	Q4
COM	20	Audit of adult safeguarding – covering review of Multi Agency Support Hub (MASH)	15	Q3
COM	16	Review of Leisure Contract – open book accounting (deferred from 2020/21)	15	Q2
COM	12	Review of client contributions for care provision	12	Q2
COM	12	Review of business continuity management for the directorate, including supplier continuity	15	Q2
Chief Executive				
CEX	16	Continued tracking of managers implementation of audit recommendations		Ongoing
CEX	9	Follow up of HR Policies review	5	Q3
Housing, Regeneration and Public Realm				
HRPR	15	Audit of health and safety check assurances for temporary accommodation housing properties	15	Q3
HRPR	12	Extension of 2021/22 audit of Building for Lewisham	15	Q4
HRPR	12	Audit of s106/CIL arrangements	15	Q3
HRPR		Follow up of Limited assurance audit of Highways Contracts	5	Q2
HRPR	20	Audit of arrangements for dealing with homelessness, including procurement of B&B / Private rented properties	15	Q2
HRPR	20	Budget management in Environmental Services	12	Q3
Children & Young People				
CYP	25	Review of Early Years Transformation	10	Q1
CYP	25	Review of quality assurance arrangements	15	Q3
CYP	20	Supporting Families - troubled families grant	5	Q4
CYP	20	Budget management in key budget area	12	Q3
Cross council				
X Council	20	Review of arrangements to deliver climate change strategy	15	Q1
X Council	16	Review of capital expenditure, including project approval and assurances	20	Q2
X Council	12	Review of data protection act compliance	12	Q2
X Council	12	Review of compliance team's arrangements for health & safety checking of the corporate estate	10	Q2
X Council	12	Review of performance information for a sample of KPIs	15	Q3
X Council	12	Review of contract management – contracts TBC	20	Q2
X Council		Follow up of Limited assurance audit	10	Q4
X Council		Risk Management	10	Q4
X Council		Other grant Certifications	10	Ongoing

Lead Directorate	Risk score	Potential Audit	Days	Proposed Timing
Children & Young People - Education				
Schools	12	All Saints CE Primary	6	Q2
		Baring Primary	6	Q1
		Beecroft Garden Primary	6	TBC
		Brent Knoll School (Special)	7	TBC
		Brindishe Lee Primary	6	TBC
		Coopers Lane Primary	6	Q1
		Downderry Primary	6	TBC
		Elfrida Primary	6	TBC
		Eliot Bank Primary	6	TBC
		Gordonbrock Primary	6	TBC
		Greenvale Special (Special)	7	TBC
		Grinling Gibbons Primary	6	TBC
		Haseltine Primary	6	TBC
		Holy Trinity CE Primary	6	TBC
		John Ball Primary	6	TBC
		Kelvin Grove Primary	6	TBC
		New Woodlands (Special)	7	TBC
		Perrymount Primary	6	TBC
		Sir Francis Drake Primary	6	TBC
		St Bartholomew's CE Primary	6	TBC
		St James' Hatcham CE Primary	6	TBC
		St John Baptist CE Primary	6	TBC
		St Saviour's RC Primary	6	TBC
		St William of York Catholic Primary	6	TBC
		St Winifred's Catholic Primary	6	TBC
		Our lady and St Philip Neri RC primary school	6	TBC

Annex 2 - Internal Audit Charter for 2021/22

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 2017. 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 plan will be delivered by a team of in-house auditors, supplemented by bought-in services from PwC and Mazars. 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 shall report to the Chief Audit Executive who, in turn, shall report functionally to the Audit Panel and administratively to the Director of Corporate Services.

The Chief Audit Executive is seconded on an interim basis from PricewaterhouseCoopers (PwC). All additional services commissioned from PwC are agreed in advance with the Director of Corporate Services.   The Chief Audit Executive and 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.

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.

Executive directors, directorate management teams and the Executive Management Team will be updated quarterly on progress with the delivery of relevant audit work as well as managers' progress with the implementations of audit actions.

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. An independent assessment of compliance with the PSIAS is planned for 2021/22.

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.

14 June 2021

Pension Scheme Administration 2020-21 (Core Controls)
Corporate Resources (COR)
Overall Audit Opinion – Limited

	Process Areas	High	Medium	Low
▲	1. Contributions	1	0	1
★	2. Transfers in and out of the Pension Scheme	0	1	0
★	3. Pension Payments	0	1	1
▲	4. Reconciliations	1	1	0
	Total	**2**	**3**	**2**

Key   ★Substantial   ● Satisfactory   ▲ Limited   ■ No Assurance

Assurance Opinion and Recommendations Made

Pension Scheme Administration 2020/21 has an assurance rating of Limited.

The previous audit completed in 2019/20 had the assurance rating of Substantial.

The numbers of recommendations made, listed by categories are as follows: 2 High recommendations,

- 3 Medium recommendations (of these 1 was raised in the previous audit report), and
- 2 Low recommendations.

Key Findings *indicates reoccurring finding

- Testing of 10 active members on reduced pay due to long term sick leave and maternity leave identified for all 10 members that their employee contribution rate and the employer contribution was not calculated on their assumed pensionable pay as required by the LGPS Regulations 2013. This resulted in an underpayment of £829 to the pension fund for the sample cases in the one month tested.

- No evidence was provided that assurance is regularly obtained that the monthly payments to pensioners are accurate, complete and what was expected to be paid.

- A review of nine monthly reconciliations between pension data and the general ledger identified: the actions taken to resolve variances were not recorded; and seven instances where the reconciliation was not signed and dated by the reconciler and approver.

- It was identified that the last life certificate exercise was carried out in 2019. However, a schedule for carrying out the life certificate exercise has not been developed.

- It was identified that up to date procedure notes for calculating member pension benefits were not in place. In addition, the creation date or last review date was not recorded on the transfer value calculation procedure notes.

Banking 20-21
Corporate Resources (COR)
Overall Audit Opinion – Limited

	Process Areas	High	Medium	Low
▲	1. Transaction Management	2	1	0
▲	2. Suspense Accounts	1	0	0
★	3. Bank Reconciliations	0	1	0
●	4. Information Security	0	2	0
	Total	**3**	**4**	**0**

Key ★ Substantial   ● Satisfactory   ▲ Limited   ■ No Assurance

Assurance Opinion and Recommendations Made

Banking 20-21 has an assurance rating of Limited.

The previous audit completed in 2019/20 had no opinion given

Key Findings *indicates reoccurring recommendation

- 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. An excel spreadsheet summarising the fund transfer activity was inconsistent with key dates and the finance officers recorded on the underlying fund transfer forms.

- The balance of unallocated income on the Axis Income Management (AIM) system that had not been cleared onto the general ledger, E45035 suspense account for unidentified income, was £75,789,166 as at 7th January 2021 with a total of 5019 transactions dating back to May 2020. The balance was £79,524,421 with 4246 transactions as at 13 November 2020.

- The most recent reconciliation of the E45035 suspense account, at the time of the audit (January 2021) was October 2020. There was an unresolved variance of £52,599,476, which was made up of a total of 810 unidentified income transactions, including three large balances totaling £49,597,167 and 37 transactions dated 2019/20 totaling £1,050,355.

- *The income bank reconciliation was not performed promptly in the following month. Testing found that the income bank reconciliations for August and September 2020 were authorised on 09/01/2021 and that for October 2020 was authorised on 11/01/2021.

- A new chip & pin and contactless smart mobile device was introduced in September 2020 to support home and remote working by enabling employees based in any location to take payments from customers. However, there were no instructions given requiring or reminding staff to comply with the Payment Card Industry Data Security Standards.

- Analysis of the AIM system user access accounts identified 16 user accounts that were inactive during 2020-21 but had not been deactivated, and 260 active user accounts being used in 2020-21. Although users' access levels could be viewed on screen via the AIM system, it was not clear whether a review of the access permissions of all users had been done to ensure these were appropriate and up to date, and that there were no conflicting access privileges.

- Only one staff member was going into the office one day each week to process cheques and postal orders onto the AIM system. The daily/weekly cashier summaries of the cheques received, processed onto the AIM system and collected by the Security Collection were all manual records stored at Laurence House. There were no written procedure notes for the processing of the cheques onto the AIM system, their movement between locations or record keeping for cheques held in a lockable cabinet.

COVID 19 - Governance Arrangements for Ringfenced Grants
Chief Executives (CEX)
Overall Audit Opinion: Limited

	Process Areas	High	Medium	Low
	Ringfenced Grants			
▲	1. Governance Arrangements For COVID-19 Ringfenced Grants	3	1	1

Assurance Opinion and Recommendations Made

COVID -19 - Governance Arrangements for Ringfenced Grants has an assurance rating of Limited.

The number of recommendations made, listed by categories are listed below: 3 High recommendations,

- 1 Medium Recommendations, and

- 1 Low Recommendation.

Key Findings

Ringfenced Grants

- Of the £1,624,275 infection control grant (round 1) received by the Council in May and July 2020, £204,311 was unaccounted for

- A review of the completed proformas for five care homes on how they had spent the infection control grant, identified for all five care homes that a portion of the infection control grant had not been spent on the infection control measures stipulated in the grant conditions. In addition, the roles and responsibilities for the administration of the infection control grant was not documented

- A review of the infection control grant spend return to the Department of Health and Social Care (DHSC) identified that the amount dispensed and spent by 30 September 2020 did not

agree to the supporting information provided as part of the audit. In addition, the spend return and signed assurance statement was submitted on 9 October 2020 which was past the deadline of the 30 September 2020

- The measures / areas on which the Council plans to spend the test, trace and contain grant of £2,267,070 have not been documented and approved.

Highways Contracts 2020/21 Housing, Regeneration and Public Realm (HRP) Overall Audit Opinion - Limited

	Process Areas	High	Medium	Low
●	1. Approval	0	2	0
▲	2. Commissioning of Works	2	1	1
★	3. Payments to Contractors	0	1	2
★	4. Budget Monitoring	0	1	0
	Total	**2**	**5**	**3**

Key ★Substantial ● Satisfactory ▲ Limited ■ No Assurance

Assurance Opinion and Recommendations Made

Highways Contracts has an assurance rating of Limited.

The numbers of recommendations made, listed by categories are as follows: 2 High recommendations,

- 5 Medium recommendations, and
- 3 Low recommendations.

Key Findings

- Testing of 18 jobs passed to contractors on the Confirm system identified 10 of the jobs had been passed to the contractor to carry out the work prior to the relevant purchase order being approved by an authorised signatory on Oracle Cloud. In addition, a review of 13 POs identified nine instances where the value of the PO on Oracle Cloud did not match the original job value on Confirm.

- Testing of nine jobs where the final job price was greater than original price identified eight instances where the variation to the job was not recorded and costed on Confirm. In addition, it was identified for two jobs where the engineer agreed a variation to the job specification which led to the job price increasing that the purchase order value on Oracle Cloud was not increased to cover the revised cost and approved by an authorised signatory prior to the contractor carrying out the work.

- A review of four highways and transport capital projects identified for one project that the scheme's budget on the Project Initiation Document (PID), capital programme spreadsheet and most recent bi-monthly progress monitoring report were all different.

- The carriageways and footways work programme for 2020/21 was not presented to Mayor and Cabinet for their approval as required by the Asset Management Strategy (Highways).

- Procedure notes were not in place for the main processes of the Highways service.

- Testing of seven purchase orders (POs) identified five of the POs were still open on Oracle Cloud even though all invoices had been received and paid

- Testing of four highways and transport projects identified for two of the projects that a bi-monthly progress report had not been presented to the Regeneration and Capital Programme Delivery Board since the project initiation document (PID) was approved.

17. Annex 4 – Definitions of audit assurance classifications

Explanations for Assurance Opinions

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.