

# LONDON BOROUGH OF CROYDON

<b>REPORT:</b>	<b>Audit and Governance Committee</b>	
<b>DATE OF DECISION</b>	<b>21 September 2023</b>	
<b>REPORT TITLE:</b>	<b>Annual Head of Internal Audit Report</b>	
<b>CORPORATE DIRECTOR / DIRECTOR:</b>	<b>Jane West, Corporate Director of Resources and S151 Officer</b>	
<b>LEAD OFFICER:</b>	<b>Dave Phillips, Head of Internal Audit</b> <a href="mailto:Dave.Phillips@croydon.gov.uk">Dave.Phillips@croydon.gov.uk</a>	
<b>LEAD MEMBER:</b>	<b>Cllr Jason Cummings</b>	
<b>KEY DECISION?</b> [Insert Ref. Number if a Key Decision]	<b>No</b>	REASON: N/a
<b>CONTAINS EXEMPT INFORMATION?</b>	<b>No</b>	Public
<b>WARDS AFFECTED:</b>	<b>N/a</b>	

## 1. SUMMARY OF REPORT

- 1.1** This report details the work completed by Internal Audit in 2022/23 and the overall level of assurance for the Council's internal control environment to support the Annual Governance Statement (AGS). The AGS is included on the agenda for this committee and will be published on the Council's website in due course alongside the final accounts.
- 1.2** From the Internal Audit work undertaken in 2022/23, it is the Interim Head of Internal Audit's opinion that Internal Audit can provide only **Limited Assurance** in relation to the system of internal control, and that the internal controls within financial and non-financial systems operating throughout the year were unsatisfactory in some cases.

## 2. RECOMMENDATION

- 2.1** The Audit and Governance Committee is asked to note the Head of Internal Audit Report 2022/23 (Appendix 1) and the overall Limited level of assurance of the Council's systems of internal control.

### 3. REASONS FOR RECOMMENDATION

3.1 The Public Sector Internal Audit Standards require the Head of Internal Audit to prepare an independent annual written report to members that includes:

- an opinion on the overall effectiveness of the organisation's framework for governance, risk management and control;
- disclosure of any qualifications on that opinion; and
- any issues the Head of Internal Audit judges relevant to the preparation of the Annual Governance Statement.

### 4. BACKGROUND AND DETAILS

4.1 The Public Sector Internal Audit Standards require the Head of Internal Audit to prepare an independent annual written report to members that includes:

- an opinion on the overall effectiveness of the organisation's framework for governance, risk management and control;
- disclosure of any qualifications on that opinion; and
- any issues the Head of Internal Audit judges relevant to the preparation of the Annual Governance Statement.

4.2 Appendix 1 details the annual report for the period 2022/23. From the work undertaken, the Head of Internal Audit is giving a **Limited Assurance** in that the Council's framework for governance, risk management and control does not accord with proper practice in several cases.

4.3 The Limited level of assurance reflects that **65%** of individual audits received either No or Limited assurance levels. This is an increase over the previous year; however, it should also be noted that at the time of writing there were still a number reports in draft. There will be an update on these outstanding reports at the next meeting of this committee.

4.4 During the financial year 2022/23 the following key issues were identified, most of which had been raised in previous years:

- general compliance issues in basic areas of governance and control;
- a number of issues with contract letting, monitoring and management across the organisation;
- issues over information governance, including the role of the data protection officer and the process for responding to freedom of information requests;
- issues over budget monitoring and management, and
- issues over housing and temporary accommodation tenancies, including the allocation, recording and checking of these and arrangements for repairs and maintenance.

**4.5** The assurance levels of internal audits issued since the last annual report can be broken down as follows:

	<b>Full</b>	<b>Substantial</b>	<b>Limited</b>	<b>No</b>	<b>Total</b>
Key Financial Systems	0% (0)	0% (0)	100% (8)	0% (0)	8
ICT Systems	0% (0)	67% (2)	33% (1)	0% (0)	3
Operational and Departmental Systems	3% (1)	32% (12)	46% (17)	19% (7)	37
Schools	0% (0)	55% (6)	45% (5)	0% (0)	11
<b>Total</b>	2% (1)	34% (20)	53% (31)	11% (7)	59

**4.6** Internal audit has identified issues and risks and service managers have identified actions to mitigate those risks. The Council now needs to ensure that the action is taken to implement audit recommendations particularly in relation to priority one issues. The actions to address the most significant issues are set out in paragraph 3.8 below.

#### **Implementation of Audit recommendations**

**4.7** The Council has set targets for the implementation of audit recommendations. Implementation is assessed at the time of follow-up audits. The targets are 80% for all priority 2 & 3 recommendations and 90% for priority 1 recommendations. The table below shows achievement against these targets for the follow-up audits carried out to date.

#### **Implementation of agreed recommendations**

<b>Performance Objective</b>	<b>Target</b>	<b>Performance 2018/19 (to date*)</b>	<b>Performance 2019/20 (to date*)</b>	<b>Performance 2020/21 (to date*)</b>	<b>Performance 2021/22 (to date*)</b>	<b>Performance 2022/23 (to date*)</b>
Percentage of priority one recommendations implemented at the time of the follow up audit	90%	98%	99%	75%	50%	-
Percentage of all recommendations implemented at the time of the follow up audit	80%	94%	93%	82%	72%	54%

\* Audits are still being followed up for 2018/19, 2019/20, 2021/22 and 2022/23 and therefore the percentage is likely to change.

**4.8** Internal Audit continues to work with departments to help improve implementation timescales. This includes monthly reports to the CMT highlighting where recommendations are not being implemented and agreeing the way forward.

## **Significant Control Weaknesses**

- 4.9** Internal Audit is required to form an opinion on the quality of the framework for governance, risk management and control, which includes consideration of any significant risk or governance issues and control failures which arise. During the financial year 2022/23, 5 key issues were identified (detailed in paragraph 4.4 above). All 5 of these items have been carried forward to the Annual Governance Statement (AGS) and responses sought from relevant management.
- 4.10** Actions have been agreed to address these weaknesses and internal audit will be involved in further audit work in these areas.
- 4.11** In addition, to raise the profile of issues raised by internal audit and to address them earlier:
- All action plans to address individual audit findings are signed off by the relevant Corporate Director who is responsible for ensuring implementation.
  - Internal audit attends regular CMT and CMT audit focus meetings to report on outstanding audit reports and overdue follow up actions.
- 4.12** This report follows a period of changes flowing from the Reports in the Public Interest issued by the Council's external auditor and the complete change at the top of the organisation, amongst both politicians and officers.
- 4.13** There has been a good start made on changing the organisation's culture, but this is not a quick process and will take some time to embed. In particular, the Corporate Management Team (CMT) are much more focussed on governance issues, with regular Internal Audit updates being reported to CMT and with bi-monthly audit focus group meetings, where deep dives on key and outstanding audit issues are conducted. Work is still ongoing to embed good governance throughout the organisation, and includes mandatory training on key processes and increased compliance checks.

## **5. FINANCE IMPLICATIONS**

- 5.1.1** The fixed price for the Internal Audit contract was £369k for 2022-23 and there was adequate provision within the budget. There are no additional direct financial implications relating to this report.
- 5.1.2** Internal Audit's planning methodology is based on risk assessments that include using the Council risk register processes and ensure integration with the risk management framework.
- 5.1.3** Since the start of the financial year further strengthening of financial internal controls has taken place. A key improvement has been the formalisation of

the assurance meetings, which are chaired by the S151 Officer and CEO. This allows for detailed scrutiny in relation to in year budget delivery along with progress made with regards to MTFs savings.

**5.1.4** Financial systems have improved over the past two years and further work is ongoing to further strengthen these. The Council has embarked on a Financial System improvement programme and has recently secured a two year extension with its main provider to ensure stability and further development opportunities to better utilise the system to improve internal controls.

**5.1.5** The financial constraints that the Council is experiencing and the consequent savings that need to be achieved, will continue to make it challenging to maintain a robust system of internal control. Internal audit will need to maintain some flexibility in its work plan to accommodate new or increasing areas of risk.

**5.1.6** Comments approved by Allister Bannin, Director of Corporate Finance.  
(Date: 11/09/2023)

## **5.2 LEGAL IMPLICATIONS**

**5.2.1** The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that the Council should take steps to improve the Assurance level within the Council.

**5.2.2** There are various obligations upon the Council regarding ensuring that its business is conducted in accordance with the law and proper standards. This includes the duty (under the Local Government Act 1999) to make arrangements to secure continuous improvement, to have an Annual Government Statement and to undertake a review of the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards and guidance (Accounts and Audit Regulations 2015). The Committee should note that the Council is under a duty (s3(1) Local Government Act 1999) as a best value authority to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

**5.2.3** On 20 July 2023 the Secretary of State for Levelling Up, Housing and Communities (SoS) issued Directions under section 15(5) of the Local Government Act 1999 arising from the Council's failure to meet the best value duty placed upon it. The SoS Directions require the Council to take a number of actions including a requirement to address the culture of poor financial management of the Authority and to secure as soon as practicable

that all the Authority's functions are exercised in conformity with the best value duty delivering improvements in services and outcomes for the people of Croydon. The Directions apply to all the governance and decision-making bodies of the Council including Full Council, Elected Mayor and Cabinet Members (Executive) and any committee or sub-committee. The Directions are expected to remain in force until 20 July 2025 but could be amended or revoked at an earlier date by the SoS, if appropriate.

**5.2.4** Further the Council's Financial Regulations, as part of the Constitution, require the preparation of an annual Head of Audit Report and an Annual Governance Statement.

**5.2.5** It is noted that the terms of reference of the Audit and Governance Committee enables it to consider the annual report of the Head of Internal Audit and make recommendations as appropriate to management, Cabinet and/or Full Council.

**5.2.6** In considering the recommendation in this report the Committee should have regard to the Council's overall governance and financial position. The Head of Internal Audit Report should also be carefully considered. In particular that there is a LIMITED level of assurance provided regarding the systems of internal control.

**5.2.7** Comments approved by Sandra Herbert, the Head of Litigation & Corporate Law on behalf of the Director of Legal Services and Monitoring Officer. (Date 04/09/2023)

### **5.3 HUMAN RESOURCES IMPLICATIONS**

**5.3.1** There are no immediate HR implications arising from the content of this report.

**5.3.2** Comments approved by Gillian Bevan, Head of HR Resources and Assistant Chief Executives Directorates on behalf of the Chief People Officer. (Date 04/09/2023)

### **5.4 EQUALITIES IMPLICATIONS**

**5.4.1** Under the Public Sector Equality Duty of the Equality Act 2010, the Council must evidence consideration of any potential impacts of proposals on groups who share the protected characteristics, before decisions are taken. This includes any decisions relating to how authorities act as employers; how they develop, evaluate and review policies; how they design, deliver and evaluate services, and also how they commission and procure services from others. These include areas in which internal audit provide assurance of the Council's systems and processes.

**5.4.2** Section 149 of the Act requires public bodies to have due regard to the need to:

- eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;
- advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
- foster good relations between people who share a protected characteristic and people who do not share it.

**5.4.3** Protected characteristics defined by law include race and ethnicity, disability, sex, gender reassignment, age, sexual orientation, pregnancy and maternity, and religion or belief.

**5.4.4** This report has no direct equality implications. The limited assurance rating has not highlighted any specific concerns about the internal controls in relation to the Council's process for equality impact assessments. However, this approach is regularly reviewed and the Equality, Diversity & Inclusion Internal Control Board has been established to monitor and strengthen the Council's activities in relation to equalities.

**5.4.5** Approved by: Naseer Ahmad for Equality Programme Manager. (Date 09/11//2023)

## **6. APPENDICES**

**6.1** Appendix 1 – London Borough of Croydon Head of Internal Audit Report 2022/23

## **7. BACKGROUND DOCUMENTS**

**7.1** None

## **8. URGENCY**

**8.1** There is none.