

LONDON BOROUGH OF CROYDON

REPORT:	Audit and Governance Committee	
DATE OF DECISION	19 September 2024	
REPORT TITLE:	Annual Head of Internal Audit Report	
CORPORATE DIRECTOR / DIRECTOR:	Jane West, Corporate Director of Resources and S151 Officer	
LEAD OFFICER:	Dave Phillips, Head of Internal Audit Dave.Phillips@croydon.gov.uk	
LEAD MEMBER:	Cllr Jason Cummings	
KEY DECISION? [Insert Ref. Number if a Key Decision]	No	REASON: N/a
CONTAINS EXEMPT INFORMATION?	No	Public
WARDS AFFECTED:	N/a	

1. SUMMARY OF REPORT

- 1.1** This report details the work completed by Internal Audit in 2023/24 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 2023/24, 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 consider the Head of Internal Audit Report 2023/24 (Appendix 1) and the overall Limited level of assurance of the Council's systems of internal control and make recommendations as appropriate to management, Cabinet and/or Full Council.

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 2023/24. 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 **75%** 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 subsequent meetings of this committee.

4.4 During the financial year 2023/24 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 with the role of the Data Protection officer (DPO) and the management of Subject Access Requests (SARs), Freedom of Information (FOI) requests and privacy notices;
- issues over the process of service budget monitoring; and
- issues in the areas of temporary accommodation, housing tenancy checks and repairs and maintenance.

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

	Full	Substantial	Limited	No	Total
Key Financial Systems	0% (0)	50% (4)	50% (4)	0% (0)	8
ICT Systems	0% (0)	0% (0)	50% (1)	50% (1)	2
Operational and Departmental Systems	0% (0)	21% (8)	64% (25)	15% (6)	39
Schools	0% (0)	33% (2)	67% (4)	0% (0)	6
Total	0% (0)	25% (14)	62% (34)	13% (7)	55

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 4.9 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

Performance Objective	Target	Performance 2019/20 (to date*)	Performance 2020/21 (to date*)	Performance 2021/22 (to date*)	Performance 2022/23 (to date*)	Performance 2023/24 (to date*)
Percentage of priority one recommendations implemented at the time of the follow up audit	90%	99%	89%	90%	39%	20%
Percentage of all recommendations implemented at the time of the follow up audit	80%	96%	89%	99%	29%	20%

* Audits are still being followed up for 2019/20, 2021/22, 2022/23 and 2023/24 and therefore the percentage is subject to change.

4.8 Internal Audit continues to work with directorates 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 2023/24, 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** The Corporate Management Team (CMT) continue to be 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.
- 4.13** Further work is; however, still required to embed good governance throughout the organisation. In this regard, the Council has included a risk in the risk register that, *‘Organisational behaviours, culture and practices lead to the Council being unable to operate effectively and therefore not serve the residents of the borough and internally within the council in accordance with their expectations’* and have commissioned consultancy work to help improve this. There has also been a focus on developing middle managers, through the Management Development Programme. This is; however, not a quick process and good governance will take some time to fully embed.

5. CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

- 5.1** The Public Sector Internal Audit Standards require that “external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.”
- 5.2** Such an assessment was carried out in early 2016 by the Head of Internal Audit at the London Borough of Harrow. Her qualifications for conduction this review are: She is a member of Chartered Institute of Internal Auditors with 32 years experience of local government internal audit including 25 years experience in internal audit management. This was organized as part of the London Audit

Group's peer review group which includes most of the 33 London Boroughs. 6.6 The review concluded that: Based on the work carried out it can be confirmed that internal audit at the London Borough of Croydon **GENERALLY CONFORMS** with the UK Public Sector Internal Audit Standards.

- 5.3 The subsequent external audit assessment is now overdue, but is scheduled to be completed by 31 March 2025. This has also been arranged through the London Audit Group's peer review group.
- 5.4 More recently, Croydon Council's head of internal Audit has carried out a self-assessment which confirmed that internal audit at the London Borough of Croydon **GENERALLY CONFORMS** with the UK Public Sector Internal Audit Standards.

6. FINANCE IMPLICATIONS

- 6.1 The fixed price for the Internal Audit contract was £0.365m for 2023-24 and there was adequate provision within the budget. There are no additional direct financial implications relating to this report.
- 6.2 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.
 - 6.2.1 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 the Chief Executive. This allows for detailed scrutiny in relation to in year budget delivery along with progress made with regards to Medium Term Financial Strategy savings.
 - 6.2.2 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.
 - 6.2.3 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.
 - 6.2.4 Comments approved by Lesley Shields, Head of Finance for Assistant Chief Executive and Resources on behalf of the Director of Finance. 10/09/2024

7. LEGAL IMPLICATIONS

7.1 The Accounts and Audit Regulations 2015 (The Regulations) require the Council to have in place a sound system of internal control which -

a) facilitates the effective exercise of the Council's functions and the achievement of its aims and objectives;

(b) ensures that the financial and operational management of the authority is effective; and

(c) includes effective arrangements for the management of risk.

7.2 The Regulations also require the Council to maintain an internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance. These Regulations also require any officer or Member of the Council to:

- make available such documents and records; and
- supply such information and explanations.
- as are considered necessary by those conducting the audit.

7.3 The Council needs to respond to audit recommendations and address issues identified in a timely way to improve the Assurance level within the Council.

7.4 The Council is required to operate in accordance with a range of statutory requirements and proper standards. This includes the duty (under the Local Government Act 1999) to make arrangements to secure continuous improvement in a way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness to fulfil its Best Value duty; to have an Annual Government Statement (Accounts and Audit Regulations 2015).

7.5 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.

- 7.6** 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.
- 7.7** Part 3 of the Council's Constitution set out the terms of reference of the Audit and Governance Committee. Paragraph 17 of the terms of reference enables the Committee to consider the annual report of the Head of Internal Audit and make recommendations as appropriate to management, Cabinet and/or Full Council.
- 7.8** 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.
- 7.9** Comments approved by Gina Clarke Principal Lawyer Corporate Law & Litigation on behalf of the Director of Legal Services and Monitoring Officer. (Date 05/09/2024)

8. HUMAN RESOURCES IMPLICATIONS

- 8.1** There are no immediate HR implications arising from the content of this report.
- 8.2** Comments approved by Gillian Bevan, Head of HR Business Partnering on behalf of the Chief People Officer. (Date 09/09/2024)

9. EQUALITIES IMPLICATIONS

- 9.1** 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.
- 9.2** 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.

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

9.4 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.

9.5 Comments approved by Ken Orlukwu, Senior Equalities Officer, on behalf of Helen Reeves, Head of Strategy & Policy on 30/08/2024.

10. APPENDICES

10.1 Appendix 1 – Head of Internal Audit report for 2023/24.

11. BACKGROUND DOCUMENTS

11.1 None

12. URGENCY

12.1 There is none.