



# Audit and Performance Committee Report

<b>Meeting:</b>	Audit and Performance Committee
<b>Date:</b>	15 July 2020
<b>Classification:</b>	For General Release
<b>Title:</b>	Annual Report on Internal Audit and Internal Control - 2019/20
<b>Wards Affected:</b>	All
<b>Key Decision:</b>	No
<b>Financial Summary:</b>	There are no financial implications arising from this report
<b>Report of:</b>	Director for Audit, Fraud, Risk and Insurance
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## 1. Executive Summary

- 1.1 This report summarises the work of Internal Audit in 2019/20, including an update on work completed since the previous report to the Committee, and provides the audit opinion of the Shared Services Director of Audit, Fraud, Risk and Insurance on the adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion is provided for the use of Westminster City Council and is used to support its Annual Governance Statement.
- 1.2 From the Internal Audit work undertaken in the financial year 2019/20, reasonable assurance can be provided that systems of internal control in place are effective with 83% of the audits undertaken receiving a positive (substantial or satisfactory) assurance opinion.
- 1.3 In all areas where control improvements are required and compliance with agreed systems could be improved, action plans are in place to remedy the weaknesses identified. These will be followed up by the internal audit team until they are completed.

- 1.4 The Council was found to be effective, in most areas, at implementing recommendations where concerns in respect of controls were identified.

## **2. Recommendation**

That the Committee consider and comment on the results of the internal audit work carried out during the period.

## **3. Background, including Policy Context**

- 3.1 The Audit and Accounts Regulations 2015 require the Council to conduct a review of effectiveness of the system of internal control. With effect from 1 April 2015, the Council's internal audit service has been provided under a shared service arrangement with the Royal Borough of Kensington & Chelsea (RBKC) and the London Borough of Hammersmith and Fulham (LBHF). RBKC are the host authority for the provision of this service which is managed by the Shared Services Director of Audit, Fraud, Risk and Insurance.
- 3.2 The in-house internal audit team is supplemented by resources from Mazars LLP under a Framework arrangement with the London Borough of Croydon and PwC under a Framework arrangement with the London Borough of Islington. The London Borough of Islington Framework was recently re-procured with the London Borough of Barnet taking the lead. This new Framework is operational from 1 April 2020 and will be accessible to the Council through the Shared Services Director of Audit, Fraud, Risk and Insurance.
- 3.3 Detailed reports on the performance and outcomes of the internal Audit work undertaken, have been presented quarterly to the Council's Section 151 Officer and at each meeting of the Audit & Performance Committee during 2019/20, with a further update provided in Appendix 3 to this report for recently completed reviews.
- 3.4 Where appropriate, audits were undertaken on a bi-borough basis where the underlying services operate in such a manner. Additionally, where the opportunity arose, audits considered the controls across all three Councils in services that remained sovereign. This approach provides the opportunity to compare and contrast systems to identify and disseminate best practice.
- 3.5 Wherever possible, when planned audits had to be postponed, alternative audit work was identified from the original plan's contingency list of audits or from in-year requests from senior management.
- 3.6 The internal audit service has been provided in accordance with the UK Public Sector Internal Audit Standards (PSIAS). During 2019/20 the Internal Audit Service undertook a self-assessment to verify PSIAS compliance which has identified general

compliance with the Standards with minor improvements required which will be addressed during 2020/21.

#### 4. Internal Audit Opinion

- 4.1 As the provider of the internal audit service to Westminster City Council, the Shared Services Director of Audit, Fraud, Risk and Insurance is required to provide the Section 151 Officer and the Audit & Performance Committee with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control arrangements. In giving this opinion it should be noted that assurance can never be absolute. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.
- 4.2 The opinion is that, at the time of preparing this report and based upon the work completed this year, the Council's governance, risk management and internal control systems in the areas audited were adequate, with the exception of those areas detailed as "amber", all of which have been reported to the Audit & Performance Committee. This is a positive opinion which means that the Council generally has effective internal control systems with 83% of audits receiving a positive (substantial or satisfactory) assurance opinion. Although this is a reduction from 91% in 2018/19, some of the limited assurance reviews were in areas where there had been significant change in the last two years, such as disaggregation of shared services and the transfer of housing management to the Council. Following this level of change, it is to be expected that some processes, procedures and controls were not fully embedded at the time of the audit.
- 4.3 To provide context to the audit opinion ratings assigned to our assurance work, these have been summarised below:

<b>Assurance Rating</b>	<b>Description</b>
Substantial	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and no material errors or weaknesses were found.
Satisfactory	While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited	Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
None	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

- 4.4 In the above context it should be noted that:
- This opinion is based solely upon the areas reviewed and the progress made by the Council to action internal audit recommendations;
  - Assurance can never be absolute neither can internal audit work be designed to identify or address all weaknesses that might exist;
  - Responsibility for maintaining adequate and appropriate systems of internal control resides with Council management, not internal audit.
- 4.5 Follow up reviews confirmed that the implementation of medium and high priority recommendations has been consistently effective.
- 4.6 Issues arising from Internal Audit work which have significant implications for the Council's control assurance framework have been included in the Annual Governance Statement which is reported separately to this Committee. The monitoring process in respect of the Annual Governance Statement also ensures that follow up action is taken to remedy the key control weaknesses found.
- 4.7 There were some areas where improvements in compliance with controls were needed with a total of five audits being designated as "limited assurance", namely:

<b>Service Area</b>	<b>Audit</b>	<b>Reported to A&amp;P Committee</b>
Growth, Planning & Housing	Housing H&S Compliance**	September 2019*
	Housing Complaints (integration in corporate systems)	July 2020
Environment & City Management	Cemeteries – Contract Monitoring	September 2019*
Finance & Resources	Client Affairs	July 2020
	Cyber Security	July 2020

\*The findings from these audits have been reported to the Audit & Performance Committee as indicated above.

\*\*The implementation of recommendations arising from this audit has been reviewed during 2019/20 with good progress made to implement them.

#### 4.8 **Hants CC Managed Services (Finance, HR & Payroll)**

- 4.8.1 Following the implementation of the new Managed Service in December 2018, the Head of Internal Audit and the Shared Services Director of Audit, Fraud, Risk and Insurance have been liaising with the HCC's Internal Audit Service, Southern Internal Audit Partnership (SIAP), to ensure that appropriate audit work can be planned to provide the Council with assurance over the adequacy of controls following the implementation of the new finance, HR and payroll systems.
- 4.8.2 As reported to the Committee in July 2019, HCC commissioned an external review of the suitability of the controls and control objectives operated within the Integrated Business Centre (IBC), with a Service Organisation Controls Type 1 Report provided

on the suitability of the design of controls as at 31 March 2019, which was based on International Standard Assurance Engagement (IASAE) 3402.

- 4.8.3 During 2019/20, HCC commissioned a Type 2 Report on the suitability of the design and operating effectiveness of controls which was prepared in accordance with ISAE 3402 and covered the period 1 April to 31 December 2019. It was reported that, the controls operated effectively to provide reasonable assurance that the Control Objectives were achieved if complementary user entities assumed in the design of the IBC controls, operated effectively throughout the period reviewed.
- 4.8.4 In addition to the assurances provided by HCC, Internal Audit have been reviewing compliance across the Council with the local controls in respect of Finance, HR and Payroll processes. In the first half of 2019/20, Internal Audit liaised with a sample of Council services to establish how they were utilising the new system to effectively manage their budgets which is a fundamental local control. Although some had experienced challenges when the system and processes were first implemented, these had been overcome and a good level of online training and help functions are available to the system user with support provided by Finance and Resources Business Partners. Internal Audit were provided with additional enquiry and reporting tools in the final quarter of the year, which will enable us to develop more comprehensive audit testing on a continuous basis of local compliance with system controls.

#### 4.9 **Schools Audit Work**

In addition to full audits at three schools, two surveys were undertaken to provide a quick assessment of the budget management and procurement processes of the Council's maintained and voluntary schools. The responses to these surveys provided some assurance that, in most cases, the schools had appropriate controls in place in respect of how they manage their budgets and procure goods and services. However, the responses also indicated areas where improvements could be made and Internal Audit will be working with the Schools Finance Team on how to implement improvements, identify potential training requirements and consider where good practice can be shared across the schools.

### 5. **Assurance on Risk Management**

- 5.1 The Council must ensure that it is delivering against priorities and requirements (political, community and statutory), that it is managing its processes effectively (finance, procurement, governance) and making the best use of its resources (money, assets, people). To ensure that outcomes are achieved for residents, businesses and visitors, the Council has adopted recognised best practice in the identification, evaluation and control of risks and issues to ensure that they are managed at acceptable levels. The risk management process has clearly defined steps to support better decision making through the understanding of risks, whether a positive opportunity or a threat and the likely impact.

- 5.2 Risk and issue management are aligned to the Council's business planning, financial management, transformation activities and performance management processes to ensure that it is a live process. A combination of strategic and operational registers is used to ensure that risks and issues are captured and addressed in an integrated way.
- 5.3 The Executive Leadership Team reviews the Council's strategic risk on a regular basis and the top risks for the coming year were published in the Executive Director's Report in the Council's Annual Accounts.
- 5.4 The Audit and Performance Committee receives regular reports on achievements against the Council's 'City for All' commitments, key performance indicators and risks. In areas of concern, Directors are requested to provide additional information to the Committee and during the financial year 2019-20, the following were reported to the Committee:
- Housing Service Updates (September 2019 and February 2020);
  - HRA Capital Programme (September 2019);
  - Review of Procurement Services (September 2019);
  - Met Police – Basic Command Unit (February 2020); and
  - Transition of finance, HR and payroll systems to Hampshire CC SAP and the IBC Managed Service (September 2019 and February 2020).
- 5.5 An audit of the Council's risk management process was also completed at the end of 2019/20. Whilst not all service areas could be reviewed due to the pressures of Covid-19, satisfactory assurance was given that the controls within the risk management process were suitably designed, consistently applied and effective in their application.

## **6. Assurance on Corporate Governance Arrangements**

- 6.1 To Support the Annual Governance Statement, all Council directors are required to complete an annual Director's Assurance Statement which covers their arrangement for managing risk, performance and statutory/policy compliance in their areas or responsibility.
- 6.2 In addition, from the work undertaken by Internal Audit, the Council's corporate governance framework is considered to comply with the best practice guidance on corporate governance issued by CIPFA/Solace.

6.3 Appendices to this report are as follows:

- Appendix 1 - A list of audits completed in 2019/20 with assurance opinions;
- Appendix 2 - A summary of the Internal Audit Service performance indicators; and
- Appendix 3 – A summary of Internal Audit outcomes since the last report to Committee.

**If you have any queries about this Report or wish to inspect any of the Background Papers please contact:**

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## **BACKGROUND PAPERS**

Internal Audit Reports;  
Committee Progress Reports

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## Internal Audit Plan – 2019/20

## Adult Social Care:

Auditable Area	RAG Status	Assurance level given	No of High Priority Recs	No of Medium Priority Recs	No of Low Priority Recs	Reported to Committee
Placements Brokerage	Green	SATISFACTORY	1	5	1	February 2020
Interface with CNWL Mental Health Trust (draft)	Green	SATISFACTORY	2	3	0	July 2020

## Children's Services:

Auditable Area	RAG Status	Assurance level given	No of High Priority Recs	No of Medium Priority Recs	No of Low Priority Recs	Reported to Committee
Bi-borough Framework Procurement – Minibus Service	Green	SATISFACTORY	0	0	0	November 2019
Supporting Families – compliance checks on claims	Green	SATISFACTORY	n/a	n/a	n/a	July 2020

## Schools:

Auditable Area	RAG Status	Assurance level given	No of High Priority Recs	No of Medium Priority Recs	No of Low Priority Recs	Reported to Committee
George Eliot Primary School	Green	SUBSTANTIAL	0	1	2	July 2020
St Augustine's Primary School	Green	SUBSTANTIAL	0	0	3	July 2020
Barrow Hill Primary School	Green	SUBSTANTIAL	0	1	2	July 2020
Thematic Reviews	n/a	N/A	n/a	n/a	n/a	July 2020

## Internal Audit Plan – 2019/20

## Growth, Planning &amp; Housing

Auditable Area	RAG Status	Assurance level given	No of High Priority Recs	No of Medium Priority Recs	No of Low Priority Recs	Reported to Committee
Housing – Compliance Data	Amber	LIMITED	2	5	5	September 2019
Capital Programme Assurance (phase 1)	n/a	ADVISORY	n/a	n/a	n/a	September 2019
Capital Programme Assurance (phase 2)	n/a	ADVISORY	n/a	n/a	n/a	July 2020
WAES – Discretionary Learner Support Fund	Green	SATISFACTORY	0	4	1	July 2020
Complaints – Housing integration with corporate systems (draft)	Amber	LIMITED	1	6	2	July 2020

## Environment &amp; City Management (was City Management &amp; Communities):

Auditable Area	RAG Status	Assurance level given	No of High Priority Recs	No of Medium Priority Recs	No of Low Priority Recs	Reported to Committee
Cemeteries Contract Monitoring (2018/19 cfwd)	Amber	LIMITED	4	7	2	September 2019
Certified Enforcement Agents – Contract Monitoring (2018/19 cfwd)	Green	SATISFACTORY	0	4	6	September 2019
Registrar Service - Income	Green	SUBSTANTIAL	0	2	2	September 2019
Street Works Permits	Green	SATISFACTORY	0	6	1	February 2020
S278 Income	Green	SATISFACTORY	0	6	1	February 2020
Community Safety	Green	SUBSTANTIAL	0	0	1	July 2020
Arboriculture (Trees Maintenance & Management)	Green	SATISFACTORY	0	2	2	July 2020

## Internal Audit Plan – 2019/20

## Finance &amp; Resources

Auditable Area	RAG Status	Assurance level given	No of High Priority Recs	No of Medium Priority Recs	No of Low Priority Recs	Reported to Committee
BT Agilisys – Contract Monitoring (2018/19 cfwd)	Green	SATISFACTORY	1	4	0	September 2019
Payment Card Industry (PCI DSS) Compliance	n/a	ADVISORY	0	2	0	November 2019
Procurement of Estate Services (2018/19 cfwd)	n/a	ADVISORY	0	1	0	November 2019
Housing Benefit	Green	SUBSTANTIAL	0	0	1	February 2020
NNDR	Green	SUBSTANTIAL	0	0	0	February 2020
Council Tax	Green	SUBSTANTIAL	0	0	1	July 2020
Bank Reconciliation	Green	SATISFACTORY	0	3	0	July 2020
Client Affairs (ASC)	Amber	LIMITED	1	9	1	July 2020
Cyber Security	Amber	LIMITED	2	5	2	July 2020
WESTCO – Governance (draft)	Green	SATISFACTORY	0	6	2	July 2020
Westminster Housing Investment (and Development) (draft)	Green	SATISFACTORY	0	6	1	July 2020
Integrated Business Centre (IBC) and local compliance	ongoing	SATISFACTORY	n/a	n/a	n/a	July 2020

## Renewal (was Policy, Performance &amp; Communications):

Auditable Area	RAG Status	Assurance level given	No of High Priority Recs	No of Medium Priority Recs	No of Low Priority Recs	Reported to Committee
Strategic Objectives	Green	SATISFACTORY	0	3	0	November 2019
Risk Management	Green	SATISFACTORY	0	1	2	July 2020

## Audits in progress

The audits listed below could not be completed prior to the end of the financial year and the outcomes from these audits will be reported to the Committee during 2020/21:

Adult Social Care	<ul style="list-style-type: none"> <li>• Direct Payments</li> <li>• See Financial Assessments under Finance &amp; Resources</li> </ul>
Children's Services	<ul style="list-style-type: none"> <li>• Cost Sharing Arrangements</li> </ul>
Growth, Planning & Housing	<ul style="list-style-type: none"> <li>• Housing integration of Emergency Planning;</li> <li>• Westminster Community Homes – Governance.</li> </ul>
Finance & Resources	<ul style="list-style-type: none"> <li>• Financial Assessments (delay due to Covid-19);</li> <li>• Review of Compliance (corporate buildings transfer).</li> </ul>

## Audits deferred

The audits listed below were not undertaken during 2019/20 for the reasons shown and where appropriate will be undertaken during 2020/21 or included in a future year's audit plan:

Plan Area	Auditable Area	Reason Audit not Undertaken
Adult Social Care	Deprivation of Liberty Standards	Start delayed by Covid-19 – cfwd to 2020/21 audit plan.
Children's Services – Schools	Charging for SEN	Start delayed by Covid-19 – cfwd to 2020/21 audit plan.
Growth, Planning & Housing	Capital Programme (phase 3)	Included in 2020/21 plan.
Growth, Planning & Housing	Building Control	Delay requested by the service to include in 2020/21 plan.
Growth, Planning & Housing	Apprenticeships	Delay in agreeing the scope then delayed by Covid-19. Reviewing priorities to consider if required in 2020/21 audit plan.
Growth, Planning & Housing	Lillington & Longmore RA	Halted by Covid-19. To discuss audits relating to community halls in 2020/21.
ICT – RBKC & WCC	Asset Management	Timing not appropriate to consider inclusion in future year plan.
F&R – Data Protection	GDPR – agreed advisory work to support Bi-borough Data Protection Officer	Ensuring the Terms of Reference were accurate and appropriate for the bi-borough work. Already commenced in 2020/21
F&R – Property	Commercial Property Management	Delay requested by the service and then delayed due to Covid-19. Audit cfwd to the 2020/21 audit plan.

**APPENDIX 2**  
**Internal Audit Performance Indicators – 2019/20**

Internal audit performance is summarised below against a range of performance indicators:

<b>Performance Indicators</b>	<b>Target</b>	<b>Actual</b>	<b>Comments</b>
<b>Delivery</b>			
Percentage of audit jobs completed by 31 March 2020	90%	90%	
Percentage of draft reports issued within 10 working days of fieldwork being completed	90%	90%	
Percentage of audits finalised within 10 days of a satisfactory response	95%	95%	
<b>Quality</b>			
External audit conclude they can place reliance on Internal Audit work (annual)	Yes	Yes	Liaison with external auditors to provide evidence of internal audit work.
Percentage of recommendations implemented and in progress	95%	99%	64 out of 75 recommendations fully implemented, 10 in progress and 1 not yet implemented.

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## Internal Audit Progress Report February to March 2020

### 1. Executive Summary

- 1.1 The work carried out by the Council's Internal Audit Service in the reporting period found that, in the areas audited, internal control systems were generally effective with five substantial, eight satisfactory and three limited assurance reviews being issued in the period.
- 1.2 The follow up reviews completed in the period for six audits confirmed that the implementation of recommendations has been effective with 100% of recommendations being fully or partly implemented at the time of review.

### 2. Audit Outcomes (February to March 2020)

- 2.1 Since the last report to Members, sixteen audits have been completed, thirteen of which did not identify any key areas of concern:

<b>Audit</b>	<b>Assurance</b>	<b>RAG</b>
ASC – Mental Health interface with MH Trust	Satisfactory	Green
CHS – Supporting People Claims	Satisfactory	Green
Schools – George Eliot Primary	Substantial	Green
Schools – St Augustine's Primary	Substantial	Green
Schools – Barrow Hill Primary	Substantial	Green
GPH – Complaints (integration with corporate systems)	Limited*	Amber
GPH – Westminster Adult Education Service (WAES) DLSF	Satisfactory	Green
ECM – Arboriculture (Trees Maintenance & Management)	Satisfactory	Green
ECM – Community Safety	Substantial	Green
F&R – ASC Client Affairs	Limited*	Amber
F&R – Bank Reconciliation	Satisfactory	Green
F&R – Council Tax	Substantial	Green
F&R – Cyber Security	Limited*	Amber
F&R – Westco	Satisfactory	Green
F&R - Westminster Housing Investment (and Development)	Satisfactory	Green
Renewal - Risk Management	Satisfactory	Green

\*Further information on these audits is contained in paragraphs 2.3 to 2.5.

- 2.2 In addition, two advisory reviews have been undertaken in the following areas:
- Schools Thematic Reviews (budgetary control and procurement – paragraph 2.6 below);
  - GPH Capital Programme (phase2).

Recommendations arising from advisory reports are followed up and the implementation of these recommendations will be reported in summary to the Committee.

### 2.3 GPH – Complaints Integration with Corporate Systems (Amber)

The functions previously provided by CityWest Homes (CWH) were transferred back to the Council on the 1st April 2019. The complaints system that was operated by CWH is expected to be fully integrated with the WCC Corporate complaints team and to function in accordance with the Councils' policies and regulations.

The Council has a two stage complaints procedure (Stage 1 & 2), should the complainant still remain dissatisfied with the council's response the matter can be referred to the Housing Ombudsman. The CWH's complaints process was slightly different with the former service having a 3 stage complaints process, which included a 'Local Resolution'.

One high, six medium and two low priority recommendations were made in the following areas:

- The housing complaints process was not yet fully aligned with the corporate process with there being a lack of clarity on the ownership of tasks, roles and responsibilities and expectations.
- Due to the workload within the Corporate Complaints team, stage two complaints were being dealt with by the same team that deals with stage one complaints, although the complaint is allocated to a different officer. This does not offer an impartial and independent review of the complaint.
- Housing complaints were previously recorded on their Housing Management System (Orchard). Since April 2019, the complaints have been recorded onto the corporate system (iCasework) and it was noted that additional training may be required to fully utilise the new iCasework system.
- It was noted that since April 2019, five complaints had been logged on Orchard rather than iCasework with two of these cases showing as open since April 2019.
- The Tenant Handbook which was updated in April 2019 referred to the incorrect complaints process and the old CWH Tenant Handbook was still available on-line.
- The recording of complaints escalated to the Ombudsman is not always accurately recorded within iCasework.
- The iCasework system is designed to receive incoming complaints logged online by residents as well as allowing management to build its own reports for monitoring the service. It was noted that the reporting had some limitations and formatting issues.

It is envisaged that the recommendations made can be implemented fairly quickly and they will be followed up during 2020/21.

### 2.4 Finance & Resources – Client Affairs (Amber)

The bi-borough client affairs service is not a statutory service, but it falls under the duty of care remit for local authorities. The service observes the following acts as part of the service they deliver; Mental Capacity Act 2005 and its Code of Practice, The Care Act and The Public Health Act. Client Officers have a mixed caseload of about 1000 residents from both boroughs for whom the service acts as a deputy or an appointee.

The Council may become a deputy or appointee of a client in one of the two main ways:

- by applying to the Court of Protection for a court order to manage all, or the majority of, the client's finances (Deputyship order); or
- by applying to the Department of Work and Pensions (DWP) to receive benefits on behalf of that client (Appointeeship order).

The Client Affairs Service charges clients for undertaking the deputyship role which consists of a set-up fee and a further annual management fee. There are also fees for producing annual and final reports to be submitted to the Office of the Public Guardian. Currently, there are no fees charged for appointeeships however the service is looking at options to introduce a fee as many other local authorities are doing this.

Under the requirements of The Care Act, local authorities have a care and protection role whereby they have a responsibility to safeguard movable property for those persons admitted to hospital or residential care – either selling or arranging to remove and safely store property, and to arrange for the boarding or care of animals in a client's home.

Under the Public Health Act 1984, local authorities also have a responsibility to perform public health funerals for persons who die within their area and where there is no one else to arrange the funeral. There is one RBKC funeral officer that's part of the team that deals with funeral arrangements, but this is only for RBKC residents as Westminster have a dedicated person sitting within their Environment & City Management Department.

Due to the risks involved in having responsibility for clients' finances, it is essential that the service has sound controls in place which safeguard vulnerable residents and mitigate the risk of loss or error by the councils. The key weaknesses identified in the existing systems are summarised below:

- Some of the service responsibilities are covered by Adult Social Care Standard Operating Procedures (SOPs) however these do not detail the aims and objectives of the Client Affairs Service. Roles, responsibilities and expectations of members of staff are not defined.
- A dashboard where local procedures, process steps, guidance notes and forms are summarised required updating and some procedures were missing.
- Declaration of Interest forms had not been completed by staff.
- Supporting evidence was not always available on the actions taken on new referrals to the service or deceased clients.
- A sample of income receipts and expenditure transactions were reviewed to ensure correct allocation of income and proper recording, authorisation and processing of expenditure. It was noted that although there were some controls in place, these were not considered to be adequate and/or effective.
- Although monitoring and reconciliation is undertaken, this was not considered to be sufficient particularly on those accounts with access to ATM cards.
- Under the Care Act 2014, the service safeguards client items with some stored off-site. The need to store property is not reviewed regularly to ensure that this is still appropriate.
- No management information was being produced at the time of the audit although this was being reviewed.

One high, nine medium and one low priority recommendations have been made to address the weaknesses identified and these should be implemented by the end of June 2020 when a follow up review will be undertaken.

### 2.5 Finance & Resources – Cyber Security (Amber)

The 2015 National Security Strategy confirmed that cyber remains a Tier 1 threat to the UK's economic and national security and there is a recognition that cyber-attacks are becoming more frequent and of greater sophistication. At the same time Government Departments have plans to dramatically increase the services that will be provided digitally. Users expect digital services to be user friendly and quick but also secure. At the beginning of 2019, the bi-borough IT Service commenced a review of their cyber security controls to align with the guidelines from the National Cyber Security Centre (NCSC).

Two high, five medium and two low priority recommendations were made to improve the controls in the areas summarised below:

- A number of key policies and procedure documents that are integral to the cyber security arrangements were either work in progress or still in draft format and had not been approved by senior management.

- A business continuity and disaster recovery plan for the Service has not been formally drafted and approved by senior management.
- The “Data Protection and Cyber Security” e-learning package has a low take up rate amongst employees with 19% completion rate as at September 2019. An improvement in these rates was however noted as at February 2020.
- The remediation plan following a Centre for Internet Security (CIS) framework controls review has not been formally approved by management to endorse its formal content and approach to addressing key weaknesses identified.
- The objectives and targets for vulnerability scanning have not been identified which would assist management to ensure their resources in this area are being invested effectively.
- The internal networks of the two councils are not segregated and, although the two councils are sharing IT services, the processes are not fully aligned resulting in different controls.
- Restricted distinct accounts for regular and administrative activities were required.
- User activity on the network is not consistently recorded monitored and stored to enable full analysis of activity should there be a security breach or incident.

The implementation of the recommendations is ongoing and will be followed-up during 2020/21.

### 2.6 Schools Thematic Reviews (budgetary control & procurement)

Two surveys were undertaken in the year to provide a quick assessment of the budget management and procurement processes of the schools. Surveys were issued to the schools that were not subject to a full audit in the year with 19 of the 32 schools approached providing responses. Additional surveys will be undertaken in 2020/21 and we will be looking for an improved response rate to these surveys.

The key themes arising from the responses received are summarised below:

#### **Budget Management**

- 7 schools were in deficit at the time of survey completion and others state concerns about meeting budget due to income reduction and rising costs.
- 5 schools state that they did not present a plan to the Governors and Children’s Services to clear the historic deficits. There is inconsistency in the frequency of reporting, as well as in the stakeholders that receive the information.
- There is inconsistency between schools in respect of the period of the budgets that they produce. In addition, some schools are leaving budget setting as late as March to meet an April deadline.
- There is inconsistency on the inclusion of possible costs, for example, some schools do not budget for staff overtime pay. Some schools do not recognise costs as they are incurred, but at the time of payment, which is out of sync with the majority of other schools.

### **School structure and current circumstances affecting budgeting**

- Withdrawal of Falling Roll Fund that has been provided to schools in previous years.
- Delayed staff restructures in-line with a move to Federation.
- Reduction in pupil numbers resulting in a lower amount of funding. One school has had three staff restructures in the past few years to reduce costs.
- Underfunding of SEN by the LA, schools are now looking at fundraising to maintain standards.
- Reliance on previous year carry-forwards to address deficits.
- Only 1 school stated that they had no issue with their budget.

### **Policies and procedures**

- 16 of 19 schools have policies, procedures, or alternative, documents that detail the means by which the budget is to be set and monitored.
- All schools have a scheme of delegation that defines who may authorise budgetary changes which has been reviewed and approved in the last three years.
- All schools have a member of staff with specific responsibility for the setting and management of the budget.

### **Past budget performance**

- 8 schools have forecast a deficit budget in the past three years while 9 schools have not been able to produce an approved budget by April in the past three years.
- 8 schools have needed to contact Children's Services in order to discuss corrective measures for budgetary concerns.
- Generally, schools used to have carry-forward balances but these are reducing year on year to meet deficits as income has reduced in recent years whilst expenditure has risen. This is due to reductions in funding combined with rises in staff costs from adopting the living wage as well as inflationary increases in other cost centres. One school did state that they had a steady surplus.

### **Current year budget**

- 7 of the schools are operating a deficit budget in the 2019/20 financial year.
- 3 schools (of the 8 identified above) have presented a plan to the Governors and Children's Services to clear the deficit.
- 7 schools have brought forward significant reserves from previous years.
- 9 schools produce budgets for periods of longer than one year.
- 8 schools have made virements since the current budget was set.

## **Procurement**

### **Policies and Procedures**

- All schools have policies and procedures, or equivalent documents that detail the procurement process as well as a Scheme of Delegation which defines who may authorise procurement spending and the associated financial limits. The policies and procedures had been reviewed in the past three years.
- 3 schools do not have members of staff with a specific responsibility for overseeing procurement.

### **Declaration of pecuniary interests**

- Most schools agree that some combination of the SLT, Finance Staff and other authorised signatories should complete these declarations. Two schools have all staff complete these declarations.
- All schools have their Governors complete a declaration.
- Most schools minute declarations at committee and Governing Body meetings and the declarations are kept on file.
- All schools confirmed that the declarations are renewed periodically, all schools that provided additional information stated that the frequency was at least annually. Four

schools indicated that it is a standing agenda at Governor meetings or it occurs more often than annually.

### Financial approvals

- The financial thresholds at which quotes and tenders must be obtained was relatively consistent with £10,001 to £30,000 two written quotes required and above this tenders being required. The variations included one school referencing £1,000 as the starting point and another as high as £20,000.
- All schools stated that the SLT or the Headteacher must approve all purchases with Committee/Governing Body involvement at an inconsistent threshold ranging from £3,000 to £30,000.
- If a decision is required quickly then one of these two bodies is requested to provide email confirmation of the purchases or an emergency meeting is held.
- 13 schools made single purchases greater than £10,000 with building works, lesson programmes and staff costs (salary and redundancy) being commonly referenced. Only 1 school did not make cumulative payments exceeding £10,000 to one supplier. No schools made a single payment exceeding £100,000 in the past year.

### Contracts

- All schools have agreed or extended contracts in the past three years, 10 schools stated that there were at least 20 such contracts with one school stating they had 40.
- Most schools stated that they do require a minimum of number of quotes but did not provide the threshold with the remainder referencing £5,000 and £10,000.
- 2 schools have made cumulative payments exceeding £100,000 – with these being agency (£162,080) and catering.
- 15 schools have rolling contracts that are considered to be ongoing until terminated with utilities, fire safety, cleaning and pest control given as examples.
- 4 schools do not perform a new tender process at the end of each contract. 1 school does not perform periodic reassessments of VfM for longstanding suppliers.

### Purchase Orders

- 2 schools do not require purchase orders for the majority of purchases.
- Various finance and admin staff are responsible for raising purchase orders across the schools with approval coming from the SBM or the Headteacher.
- 7 schools are operating manual purchase orders despite functionality existing within FMS, more are manually authorising purchase orders.
- Purchase orders are not normally required in a variety of circumstances, the most common of those identified being credit card purchases, utilities, SLAs approved by Governors, supply cover, petty cash and emergency works.

### Goods/Services Received

- All schools perform checks on goods/services received prior to payment being made. These checks tend to be performed by finance/admin staff, the premises manager or the person that ordered it and it will depend on the type of purchase.
- All schools record a handwritten check on the paperwork and stated that checks are always carried out in normal circumstances but would not perform a check for example when it relates to utilities or petty cash.
- The most common circumstances in which payment is made in advance of receipt are school trips, training course and online purchases.

### Invoice Payment

- Most schools have 3 or fewer people able to approve invoices for payment with the greatest number being 6.
- The person that normally approves invoices for payment across the schools is the Headteacher, deputy Headteacher and/or the SBM. One school has empowered the Headteacher's PA to approve invoices for payment.

- This approval tends to be provided in writing rather than electronically.

### Supplier Checks

- Most schools stated that they perform some combination of DBS, insurance and/or reference checks on potential service providers. Two schools stated that they do not perform any checks on potential service providers.
- All schools stated that they use suppliers approved by the Local Authority, joint arrangements with neighbouring schools and/or from the recommendation of other schools.
- Only 1 school stated that they do not perform IR35 checks on all payments to self-employed individuals.
- Three schools have finance leases.
- 3 schools state that the Governing Body do not perform any periodic review of expenditure.

The information provided from these surveys is being discussed with the Schools Finance Team. Where areas of concern have been identified, Internal Audit will work with the Schools Finance Team on how to implement improvements, identify potential training requirements and consider where good practice can be shared across the schools. The impact and pressures on schools from Covid-19 is recognised and further thematic surveys will be undertaken in 2020/21, which are less resource intensive for schools than an individual audit. The surveys are intended to compliment and not fully replace the individual school audits.

## 2.7 Implementation of Audit Recommendations

Six follow-up reviews were undertaken in the period (January to March 2019) which confirmed that 83% of recommendations made had been implemented with good progress made to implement the remaining recommendations:

Audit	No of Recs Made			No of Recs Implemented			No of Recs In Progress			No of Recs not yet actioned		
Procurement – Contractor Resilience	6			3			3			0		
Housing H&S Compliance	12			9			3			0		
Community Infrastructure Levy (CIL)	4			4			0			0		
Section 106	4			4			0			0		
St James' & St John's Primary School	12			12			0			0		
Planning	3			2			1			0		
<b>Total</b>	<b>41</b>			<b>34</b>			<b>7</b>			<b>0</b>		
Priority of recommendations	H	M	L	H	M	L	H	M	L	H	M	L
	7	23	11	4	19	11	3	4	0	0	0	0

Follow up work is undertaken when the majority of the recommendations made are expected to have been implemented as indicated in an agreed management action plan. Sometimes recommendations cannot be fully implemented in the anticipated timescales. In these cases, where appropriate progress is being made to implement the recommendations, these are identified as “in progress”. Recommendations will be followed up until all high and medium priority recommendations are implemented or good progress in implementing them can be demonstrated. Where appropriate, the follow up is included in the next full audit of the area.