

Audit, Governance and Standards Committee
29th July 2021

ANNUAL INTERNAL AUDIT REPORT 2020/21

Report by the Head of the South West London Audit Partnership

Purpose

To consider the Internal Audit Report (the review of performance for the past year) summarising some highlights from the Service's work in 2020/21.

Recommendation

To RESOLVE that the report on the activities of Internal Audit for 2020/21 is noted.

Key Points

- A. The Internal Audit Service “primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources”. Each year it submits to Members an Internal Audit Plan (the service’s work programme for the forthcoming year), and an Internal Audit Report.

Resource Implications

During 2020/21, the Internal Audit Service has delivered 96% of the audit plan days and a saving of £13k (7%) for Kingston against the agreed budget.

Background papers – held by the author of the report:

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Head of South West London Audit Partnership

Annual Internal Audit and Fraud Report 2020-2021

Royal Borough of Kingston Upon Thames

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1 EXECUTIVE SUMMARY

Introduction

- 1.1 Internal Audit work is carried out in accordance with the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards 2016 (PSIAS). Internal Audit procedures are designed to allow the Council's Head of Internal Audit to provide an annual opinion on the adequacy and effectiveness of internal controls to mitigate principal risk exposures to the Council.

Planned Coverage and Output

- 1.2 The total number of audit and fraud days commissioned for 2020/21 was 697.5 days. This was made up of the following:

	<u>No. of days</u>	
Internal audit plan	557.5	
AfC audit plan	140.0	(50% share of 280 AfC audit days)
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	697.5	

- 1.3 In July 2020, the Audit, Governance and Standards Committee agreed a plan of 557.5 audit days for the financial year 2020/21. A further 280 days were agreed for the AfC Audit Plan, split equally between Kingston and Richmond (140 days each).
- 1.4 The impact of COVID-19 has made 2020/21 a unique year for Internal Audit as was the case for the vast majority of the services we have audited. This has meant that we have had to adapt our working practices, reschedule audits and make a much greater number of amendments to the year's audit plan than would normally be the case. In acknowledging the need for additional flexibility, the Committee agreed to a 6 monthly rolling audit plan. In addition, the SWLAP redeployed some of its resources during the year to support the COVID-19 response and recovery work streams across the Council and for other partners. During 2020/21 we have seen a substantial increase in the number of government grants that need to be certified by Internal Audit, all of which are specific to supporting the Council through the pandemic. In addition, significant resources have been directed to providing advice and support including on the payment of business grants. Notwithstanding the above, we have still been able to deliver sufficient audit and assurance activity within the year to enable us to form an overall annual audit opinion for the Council in the normal way. The revised programme of work included a substantial audit around the Council's initial response to the pandemic covering 13 key workstreams.
- 1.5 Based on the above, we can report that we have completed 96% of the total number of commissioned audit days (697.5 days) for 2020/21.
- 1.6 The plan was compiled with reference to the Council's Corporate Risk Register and following discussions with each of the Directorate Management Teams (DMTs) and the Audit, Governance and Standards Committee. This has been kept under continual review throughout the year to ensure that audit resources maintain focussed in the right areas.
- 1.7 Changes to the plan and updates on progress were discussed at DMTs quarterly and significant changes reported to the Audit, Governance and Standards Committee in the Audit Update Reports.
- 1.8 It should be noted that whilst there were a number of audits reports still in draft at the year-end, the outcomes from this work have been taken into account in forming our annual opinion. Full details of these audits will be reported to the Audit, Governance and Standards Committee once each of the reports have been finalised with management.
- 1.9 In terms of reports delivered by the audit team, the audit plan for the full year included 33 assignments. During the year, 9 audits were cancelled or moved to 2021/22.
- 1.10 To date 21 audit assignments have been completed, and 17 reports have been issued as final or are at draft stage (4 of the audits were advisory or were proactive pieces of work where reports were not issued). This is covered in more detail in the planned coverage and output section. 2 audits are still in discussion regarding the draft report findings and a further audit is work in progress and any high priority issues relating to

these audits will be reported to the next Audit, Governance and Standards Committee meeting.

- 1.11 The Covid-19 pandemic has had an impact as the audit plan was suspended for the first quarter of the year and there were difficulties in getting some audits started due to the emergency situation and more pressing priorities for services. This has resulted in some of the audit work being delayed until 2021/22.

Implementation of recommendations

- 1.12 Follow up of priority 1 recommendations is undertaken quarterly and progress reported to the Corporate Performance and Risk Board and SLT prior to Audit, Governance and Standards Committee twice a year. Management responses to reports issued this year have been positive.
- 1.13 We reported in April 2021 that positive progress had been made in implementing recommendations and at that time there were 13 outstanding P1 recommendations which had not been fully completed. This is a slight increase on the previous year's (12), and remains an area which requires review and has again been reflected within the Annual Governance Statement.

Operational assurance

- 1.14 To date we have issued 17 reports and were able to place reliance on the operation of all of the key systems reviewed. A further 2 reports are in discussion regarding draft report findings and 1 audit is work in progress and any high priority issues will be reported to the next Audit, Governance and Standards Committee. 8 audits have been carried forward to the 2021/22 plan at the request or agreement of the Service and 1 audit has been cancelled.
- 1.15 Although the total number of audits completed is lower comparative to the previous year, a significant audit was undertaken to provide assurance on the Council's Covid-19 response. This provided coverage over 13 distinct areas including strategic governance arrangements, expenditure tracking, procurement, business grants and debt recovery.

Performance of the Internal Audit service

- 1.16 A requirement laid down in the Accounts and Audit (England) Regulations 2015 states that “the relevant body shall, at least once in a year, conduct a review of the effectiveness of its internal audit”. A self assessment has been undertaken this year which demonstrated substantial compliance with the standards. Areas where action is required to improve systems and processes have been included within a Quality Action Improvement Plan (QAIP). Progress against this is monitored by the Shared Service Board which oversees the Internal Audit shared service.
- 1.17 A peer review against the Public Sector Internal Audit Standards (PSIAS) must be undertaken every 5 years. The next peer review is due in June 2023.
- 1.18 The key focus of the review of the effectiveness of Internal Audit is the delivery of the service to the required standard in order to produce a reliable assurance on internal controls and the management of risks in the authority. In coming to a view on the effectiveness of the system of Internal Audit, the following are all indicators that should be taken into account:
- Performance of the Internal Audit provider (in-house and / or contractor) in terms of both quality & cost
 - Views of external audit & reliance placed on work by Internal Audit
 - Role and effectiveness of the Audit, Governance and Standards Committee
 - The extent to which Internal Audit adds value to the organisation and helps delivery of objectives
- 1.19 During 2020/21, the Internal Audit service has achieved the following:
- Delivery of 96% of the Audit Plan days
 - 100% client satisfaction for audit work
 - A saving against the agreed budget for Kingston of over £13k

Overall assurance

- 1.20 As Head of the Shared Audit Service and Statutory Head of Internal Audit for the Royal Borough of Kingston Upon Thames, I am required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment. In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes. In assessing the level of assurance to be given, I based my opinion upon:
- All internal audit assignments undertaken during the year;
 - Any follow-up action taken in respect of previous audit work;
 - Any significant recommendations not accepted by management and the consequent risks;

- Matters arising from previous reports to the Audit, Governance and Standards Committee;
- Any limitations which may have been placed on the scope of the internal audit;

Opinion

I am satisfied that sufficient internal audit work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's control environment. In my opinion, the Council does have an adequate and effective control process to manage the achievement of its objectives. However, I must caveat this opinion in respect of the key issues reported below in Section 2.

2 PLANNED COVERAGE AND OUTPUT

Actual days compared to planned days

- 2.1 A 6 month rolling audit plan was agreed by the Audit, Governance and Standards Committee this year to ensure that audit resources were directed to the right areas. On the basis of the 557.5 commissioned days, we delivered 96% of the audit plan. This was through the use of a combination of in-house auditors and specialist staff in areas such as IT audit.

Actual Assignments against planned assignments

- 2.2 As above, as a result of the uncertainty caused by the Covid-19 pandemic, the Audit, Governance and Standards Committee agreed a 6 month rolling audit plan to ensure that key risks were adequately covered. Even with a rolling audit plan, a number of audits were cancelled or moved to 2021/22 and audits added to reflect changing priorities. These have been reported to Committee as part of the regular Audit update reports.
- 2.3 Our involvement in the response to the COVID-19 pandemic demonstrated how emerging operational risks arising from the unprecedented national and local situation was managed by the Council. A significant piece of work was undertaken during the first quarter of the year to provide assurances around the Council's response to Covid-19. This was undertaken across the partnership covering a number of key risk areas and sought comparisons in how each of the Council's had responded. This was very positive in terms of how RBK had managed the fast changing environment responding well to the changing risk and control environment. Other Covid-19 work included advisory work on business grants, an audit of Personal Protective Equipment (PPE) and the review of Income Compensation returns to central government.

Assurance opinions

- 2.4 64% of audits undertaken (where assurance opinions were provided) were given substantial assurance (compared to 56% in 2020/21 and 2019/20, 63 % in 2018/19 %, 57 % in 2017/18, and 54% in 2016/17). This is positive particularly in light of the Covid-19 pandemic. Maintaining close working relationships with DMTs remains crucial, providing advice and guidance particularly in relation to areas of significant concern or where there are changes to systems and processes.
- 2.5 For each audit carried out, Internal Audit provides an opinion as to the quality of the control environment in the following processes:
- Risks have been identified, evaluated and managed
 - Internal controls reduce risks to acceptable levels
 - Action is being taken to promptly remedy significant failings or weaknesses
 - The current levels of monitoring are sufficient

- 2.6 Each audit is given an opinion based on 4 levels of assurance depending on the conclusions reached and the evidence to support those conclusions. Members and management should note that the assurance level is an opinion of controls in operation at the time of the audit. The auditor will agree with management a number of recommendations which, when implemented, will result in a reduction of the exposure to risk. Each recommendation is given a priority ranking and an implementation date and these are monitored on a regular basis by the Internal Audit team. Priority 1 recommendations are defined as being those where major issues have been identified for the attention of senior management.

Levels of assurance	
Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
Substantial Assurance	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

Priority of recommendations	
1	Major issues that we consider need to be brought to the attention of senior management.
2	Important issues which should be addressed by management in their areas of responsibility to avoid exposure to significant risk.
3	Minor issues where the risk is low. Action is advised to enhance control or improve operational efficiency.

2.7 Table 2 below identifies the overall levels of assurance provided for the Key Financial System audits:

Table 2: Levels of Assurance (KFS)

Audit Assignment	Assurance given 2017/18	Assurance given 2018/19	Assurance given 2019/20	Assurance given 2020/21
Accounts Payable		Not covered this year	Substantial	Not covered this year
Accounts Receivable	Substantial	Not covered this year	Controls reviewed full audit not performed.***	Not covered this year
Council Tax	Not covered this year	Substantial**	Not covered this year	Not covered this year
General Ledger	Not covered this year	Substantial*	Not covered this year	Not covered this year
Housing Rents /Income	Not covered this year	Moved to 19/20	Limited	Follow up work undertaken
NNDR (Business Rates)	Substantial	Not covered this year	Not covered this year	Substantial
Payroll & Staff Expenses	Substantial	Not covered this year	Not covered this year	Substantial
Pensions Administration	Not covered this year	Not covered this year	Substantial	Not covered this year
Pensions Investments	Not covered this year	Substantial	Not covered this year	Not covered this year
Treasury Management	Not covered this year	Substantial*	Not covered this year	Not covered this year
Housing Benefits	Not covered this year	Substantial*	Not covered this year	Not covered this year
Cash & Bank	Substantial	Not covered this year	Not covered this year	Substantial
Capital Expenditure	Substantial	Not covered this year	Not covered this year	Not covered this year

2.8 Table 3 below identifies the other audits where 'Limited' or "No" audit assurance was given or where Priority 1 recommendations were made.

Table 3: Priority 1 recommendations

Audit	Assurance Opinion	Number of Priority 1 recommendations
Dementia Care Nursing Home (Project Management)	N/A	11
Personal Protective Equipment	Limited	7
Mental Health - follow up	No Assurance	16

2.9 We now summarise the key issues arising as a result of our work.

Key issues arising

- 2.10 Dementia Care Nursing Home (Project Management)** – The review looked at the project management governance arrangements for the Dementia Care Nursing Home project. This was a complex project which was service led and relied on an external project manager for delivery. The audit found that there was a lack of basic project controls which impacted on delivery. The Council's project management guidance was not followed from the start and this allowed the project to gather speed without going through proper independent reviews. Opportunities to challenge at a strategic level were not taken up and project governance at an operational level was absent. There were some significant gaps in reporting on finance, risks and legal implications as part of Committee reports with financial information to members in support of the business case falling short. There was no central repository of information to support the project which impacted on transparency. A substantial amount of work has already been undertaken to establish more robust project governance controls for transformational projects. This now needs to address some of the gaps identified in this review with revised controls extended to cover all projects. A new framework of governance boards is also in place and a review will be undertaken in 2021/22 to strength test these arrangements.
- 2.11 Personal Protective Equipment (PPE)** – The audit identified issues around the procurement and control of PPE. These issues were addressed at the time of the audit and have been resolved.
- 2.12 Mental Health - follow up** - there remain a number of outstanding actions from the previous audit which have not been fully addressed. Concerns remain around the controls operated by the provider particularly in relation to appointeeship arrangements and management of client funds. These issues are being monitored and addressed as part of wider safeguarding arrangements.

Follow up work

- 2.13** In addition to audits contained within the Audit Plan for 2020/21 Internal Audit introduced formal procedures to carry out follow up work on reports where Priority 1 recommendations have been made.
- 2.14** We reported in April 2021 that positive progress had been made in implementing recommendations and at that time there were 13 outstanding P1 recommendations which had not been fully completed. 2 of these have now been superseded by the recent audit of Facilities Management.

Achieving for Children (AfC)

2.15 A separate annual report and Annual Governance Statement is reported to the AfC Audit Committee. The following points summarise some of the key risk / development areas in the Internal Control Review:

- strengthening of budget management accountability mechanisms at all levels in the organisation and standardisation of reporting across all areas
- further development of the health and safety oversight function
- further GDPR awareness training for targeted services where breaches continue to occur
- further development to maximise use of the internal audit function
- continuation of the policy review programme
- continuation of Covid governance arrangements to support and review risk management arrangements and the implications of the pandemic on service users, staff and the organisation.

2.16 In 2020/21, Limited assurance was provided on Priority 1 recommendations raised in the following audits undertaken during the year across AfC:

Audit	Number of Priority 1 recommendations
Non Schools	
Buildings and Facilities Management	2
Information Governance	1
Leaving Care	1
Project Management*	1
Youth Centres*	1
Schools	
Heathfield Junior School	2
Lowther Primary School	2
Christ Church New Malden CofE Primary School	2
St Paul's CofE Primary School, Kingston Hill	1

3 IMPLEMENTATION OF RECOMMENDATIONS

- 3.1 Following each internal audit assignment, we make recommendations for improvement. The priority of recommendation can be defined as follows:

Priority 1: - Major issues that we consider need to be brought to the attention of senior management;

Priority 2: - Important issues which should be addressed by management in their areas of responsibility;

Priority 3: - Detailed problems of a minor nature that were resolved through on-site discussion with local management.

- 3.2 Management has responded to each of our recommendations stating whether action will be taken to implement. 100% of the high priority recommendations reported to management have been agreed.

4 PERFORMANCE OF INTERNAL AUDIT

Quality assurance

- 4.1 Internal Audit operates a Quality Assurance system for its internal audits. This includes detailed independent review of all planning documents, terms of reference, audit files and reports.

Compliance with Standards

- 4.2 Based upon our ongoing assignment and review processes, together with the results of our Customer Surveys, we believe that we are substantially compliant with those Performance Standards. The self-assessment against the Public Sector Internal Audit Standards (PSIAS) for 2020/21 identified substantial compliance with most of the standards fully or partially met. Some areas where processes and documentation could be improved have been included within a Quality Action Improvement Plan which will be monitored by the Shared Service Board. None of the areas for improvement have had any significant adverse impact on the audit work undertaken.

Customer Surveys

- 4.3 We send out a Customer Survey at the end of each audit assignment in order to assess whether the auditee is satisfied with both the processes and the outcomes of the audit. 100% of the responses indicated that the auditee found the internal audit to be 'good' or 'satisfactory'.

Quality control

4.4 Quality control is achieved through:

- Preparation of a detailed audit plan which is reviewed by the Departmental Management Teams and the Strategic Leadership team prior to submission to the Audit, Governance and Standards Committee for approval;
- Regular review of progress against the plan to ensure we are delivering the work we have promised;
- A tailored audit approach using a defined methodology and assignment control documentation which is subject to a review protocol;
- The use of audit management software to ensure that all audits follow the defined protocol and format.
- The use of qualified, trained and experienced staff;
- Monitoring of performance against targets;
- The review of all audit files and reports by the Audit Manager and Head and Deputy Head of the Shared Audit Service.

5 FRAUD

5.1 The South West London Fraud Partnership (SWLFP) was established on the 1st April 2015 as a 5 Borough shared fraud investigation service between the RB Kingston, LB Sutton, LB Merton, LB Richmond and led by LB Wandsworth.

5.2 The bringing together of retained knowledge and expertise under a single team strengthens resilience for individual authorities, enabling a collaborative approach to fraud investigations and introduces the ability to undertake regional proactive counter fraud exercises. Individual partner authorities retain responsibility for ensuring that its affairs are managed in accordance with proper standards of financial conduct and for preventing and detecting fraud and corruption.

5.3 During 2020/21, the SWLFP has undertaken counter fraud activities in the following areas:

- National Fraud Initiative (NFI)
- Blue Badge/Parking Permits
- Council Tax Reduction/Discount
- Employee Fraud
- NNDR/ Business Rate Relief
- Social Care fraud
- Housing Tenancy Fraud/abuse

5.4 Some of this work was put on hold as a result of the Covid-19 pandemic. A separate report was presented to the Audit, Governance and Standards Committee on the 4th May 2021 detailing the fraud work undertaken by the South West London Fraud Partnership in 2020/21.

Official

Alix Wilson
Head of the Shared Audit Service

July 2021