

# LONDON BOROUGH OF SOUTHWARK

## INTERNAL AUDIT PROGRESS REPORT

Audit, Governance and Standards Committee

9 May 2017

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# 1. PROGRESS AGAINST INTERNAL AUDIT PLAN

## Purpose of the report

This report informs Southwark Council's audit, governance and standards committee of progress made by BDO for work undertaken against the 2016-17 and 2017-18 internal audit plans, as approved previously by the committee. It summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Public Sector Internal Audit Standards.

## Internal audit approach and methodology

As part of our audit approach, we have agreed terms of reference for each piece of work with management, identifying the headline and sub-risks which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.

Our methodology is based on four assurance levels in respect of our overall conclusions as to the design and operational effectiveness of controls within the system reviewed - substantial, moderate, limited or no assurance. The four assurance levels are designed to ensure that the opinion given does not gravitate to a "satisfactory" or middle band grading. Under any system we are required to make a judgement when making our overall assessment. The definitions for our assurance levels are set out in the appendix to this report.

## Internal audit plan 2016-17

We have completed the audits assigned to BDO for 2016-17, meeting the overarching key performance indicator to issue all draft reports by 31 March 2017.

All audit reports are currently in draft report stage awaiting management responses and will be included in the progress report presented to the committee at its meeting on 10 July 2017.

## Deferred audits

The following audits have been deferred to 2017-18 due to changes to council's management arrangements, new procedures and IT systems:

- Housing adaptations - April 2017
- Estates parking permits - June 2017
- Temporary accommodation - August 2017

## Other work

We carried out an audit of the council's claim for funding for the Troubled Families Programme for the period 7 November 2016 to 31 January 2017. The internal audit is of the claims prior to submission and is a requirement set by the Department of Communities and Local Government. We concluded that eight out of ten claims proposed by Southwark Council for the claim period met the eligibility criteria set out in Southwark Council's Troubled Families Matter Outcomes Plan. Further audits in this area will be undertaken during 2017-18.

## Annual report 2016-17

The results of the entire internal audit plan for 2016-17 will be presented to the committee at its meeting on 10 July 2017 by the council's chief audit executive. As in previous years this will include an overall assurance opinion for the year with regard to governance, risk management and internal control.

## Follow up

The routine follow up of all high and medium priority internal audit recommendations continues, details are provided in section 3.

## Internal audit plan 2017-18

The internal audit plan for 2017-18 has commenced, terms of reference issued for the first set of audits and fieldwork underway.

## 2. INTERNAL AUDIT PLAN 2016-17 - PLAN vs. PROGRESS<sup>1</sup>

Audit	Director / audit sponsor	Days	Timelines				Survey results <sup>3</sup>	Assurance opinion <sup>2</sup>	
			Start	End	Draft	Final		Expected Committee	Design
Creditor payments	director of exchequer	20	3/1/2017	9/2/2017	16/2/2017		July 2017		
South dock marina	director of leisure	20	24/1/2017	3/3/2017	13/3/2017		July 2017		
Licencing and environmental protection	director of environment	15	5/1/2017	20/3/2017	24/3/2017		July 2017		
Emergency planning and resilience	head of chief executive's office	10	6/3/2017	22/3/2017	29/3/2017		July 2017		
Digital strategy	director of modernise	10	6/3/2017	22/3/2017	30/3/2017		July 2017		
Mosaic payments	directors of adult social care, children's social care and exchequer	25	3/1/2017	16/3/2017	30/3/2017		July 2017		
Payroll and expenses	directors of exchequer services and modernise	25	1/2/2017	28/3/2017	30/3/2017		July 2017		
Southwark building services	director of environment	25	13/2/2017	21/3/2017	30/3/2017		July 2017		
Personalised budgets and direct payments	directors of adult social care and children's social care	25	6/2/2017	29/3/2017	30/3/2017		July 2017		

Audit	Director / audit sponsor	Days	Timelines					Survey results <sup>3</sup>	Assurance opinion <sup>2</sup>	
			Start	End	Draft	Final	Expected Committee		Design	Operational effectiveness
Commissioning of services	directors of adult social care and children's social care	25	6/2/2017	22/3/2017	30/3/2017		July 2017			
Regeneration programmes and projects	director of regeneration	20	9/1/2017	24/3/2017	31/3/2017		July 2017			

### Schools internal audit plan 2016-17

In addition to the plan above, we have completed the internal audit plan for schools on behalf of the director of education. A total of ten school audits were assigned to BDO, nine full audits and one follow up. Seven reports have been finalised and three are currently in draft awaiting responses.

#### Notes

1. This table includes only those audits assigned to BDO for completion in 2016-17
2. The assurance opinion will be included when reports have been finalised.
3. BDO is to agree a new client survey with the chief audit executive, which will be issued when each report is finalised. The results will be included in future internal audit progress reports.

### 3. INTERNAL AUDIT PLAN 2017-18 - PLAN vs. PROGRESS<sup>1</sup>

Audit	Director / audit sponsor	Days	Timelines				Expected Committee	Survey results <sup>3</sup>	Assurance opinion <sup>2</sup>	
			Start	End	Draft	Final			Design	Operational effectiveness
Housing adaptations	director of asset management	10	3/4/2017				July 2017			
Home ownership charges to leaseholders	Directors of exchequer and asset management	15	3/4/2017				July 2017			
IT network security	director of modernise	25	6/4/2017				July 2017			
Procurement	corporate governance panel	25	6/4/2017				July 2017			
Corporate health and safety	director of modernise	20	11/4/2017				July 2017			
Corporate energy	head of service development	15	24/4/2017				July 2017			
Regulatory services	director of environment	15	2/5/2017				November 2017			
Special educational needs	director of education	15	8/5/2017				November 2017			
Register of interests	director of law and democracy	15	15/5/2017				November 2017			
Estates parking permits	director of customer experience	10	5/6/2017				November 2017			

## Changes to the internal audit plan 2017-18

The council's corporate governance panel has requested an internal audit of information governance, with the overarching purpose of providing assurance that the council has taken appropriate steps to safeguard data and address the concerns raised previously by the information commissioner. This time for this work will be met from the contingency days within the 2017-18 plan, scheduled for quarter one and reported to the November meeting of the committee.

## Schools internal audit plan 2017-18

In addition to the audits above, we have programmed in the internal audit plan for schools on behalf of the director of education, to take place during term times between May 2017 and March 2018.

### Notes

1. This table includes only those audits where work has commenced at the time of writing
2. The assurance opinion will be included when reports have been finalised
3. BDO is to agree a new client survey with the chief audit executive, which will be issued when each report is finalised. The results will be included in future internal audit progress reports.

## 4. SUMMARY OF INTERNAL AUDIT FINDINGS

When audit reports are finalised, a summary of the findings will be included in the progress report. In addition to the information provided at section 2 and 3, a commentary will be provided on the key conclusions, recommendations and agreed management actions for each audit.



# 5. SUMMARY OF RECOMMENDATIONS STATUS

The summary provided here relates to 119 high and medium recommendations followed up in the period 1 December 2016 to 21 April 2017. All of these recommendations were raised by the previous internal audit provider.

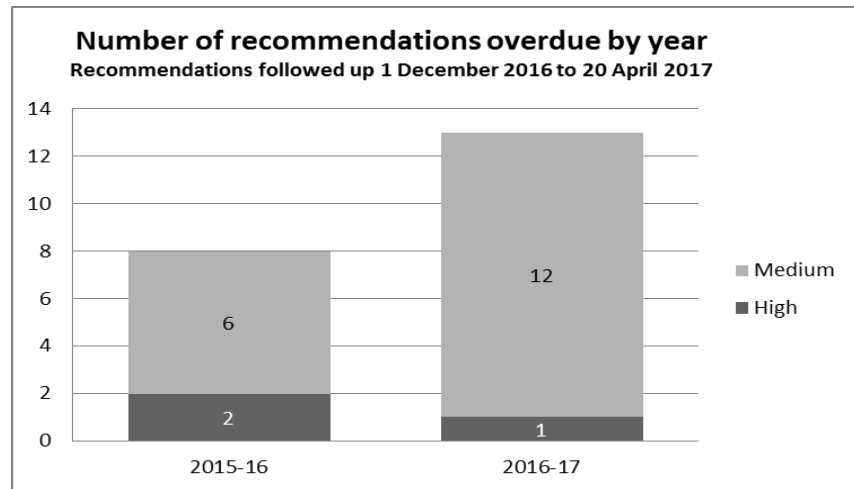
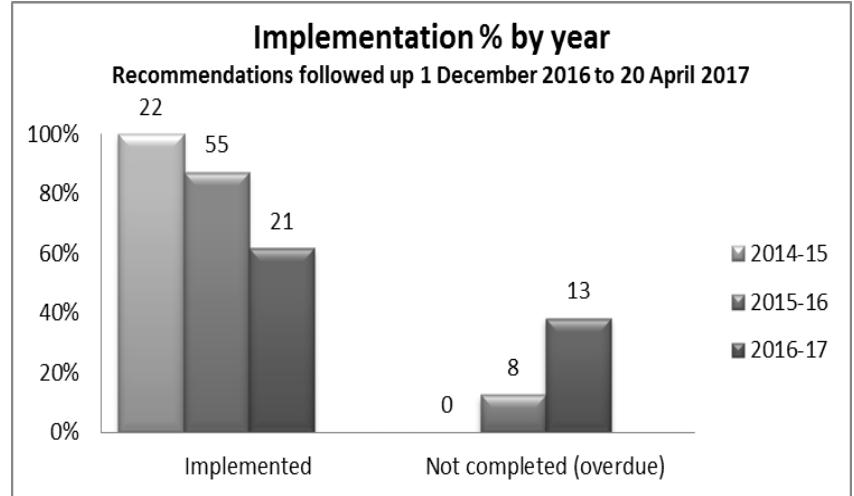
We have confirmed that 92 (82%) of the 119 recommendations followed up have been implemented.

Of the 21 recommendations not completed by the due date, three were high priority and 18 medium priority.

Two of three high priority and six of the 18 medium priority recommendations related to 2015-16.

The details of the recommendations that are overdue (against the action plan agreed by management) are included in section 6 of this report.

In the case of three audits (pages 11 and 13), the implementation dates have changed twice.



## 6. OVERDUE RECOMMENDATIONS

Audit	Recommendations	Priority	Director	Due Date	Comments
Access to services - council tax	Students should be re-assessed on an annual basis to ensure they're still eligible for council tax exemption status.	Medium	director of exchequer services	<del>January-2017</del> September 2017	Management advised that the reason for the delay is due to the need to undertake reviews of all current student discounts granted, and at the time of the follow up audit, this review had only been completed for all claims prior to 31 March 2015. Management have agreed a revised implementation date of September 2017. The next follow up will be carried out as part of the council tax health check audit scheduled for quarter 3 in 2017-18.
Council tax	At the time that the write-offs approval report is prepared, a check should be undertaken to confirm that evidence of authorisation has been retained for all of the write-offs included; and any missing documentation obtained and saved.	Medium	director of exchequer services	<del>December-2016</del> March 2017	Audit sample testing identified that not all write off and manual adjustment had been set as 'settled' on Northgate. The notes section of Northgate did not always have sufficient information to support the reasons for the write-off and for bulk write offs there was not always a generic pro forma on the file. The revised implementation date is in March 2017 after the billing period. The follow up will be carried out during quarter 3 as part of the planned 2017-18 council tax health check audit.
	All write-offs should be set to 'settled' on Northgate once the write-off has been processed. A periodic check should be introduced to confirm that this has been completed.	Medium			
Housing rents	Funds to be transferred from the suspense account should be reviewed by a second person prior to the transfer.	Medium	director of exchequer services	<del>March-2017</del> April 2017	Management have agreed a revised implementation date of April 2017. The next follow up will be carried out as part of the housing rents audit scheduled for quarter 3 in 2017-18.
	A review of current access levels within the housing rents team should be undertaken. The council should ensure members of staff are removed from authorisation once the individual leaves	Medium			

Audit	Recommendations	Priority	Director	Due Date	Comments
	the council.				
Income management - pest control	The daily run sheets should be updated to allow for recording of the balance outstanding, the balance collected, the method of payment, and any additional services provided.	Medium	director of environment	<del>May 2016</del> <del>November 2016</del> June 2017	This was the second follow up audit. To allow the new arrangements to become fully operational, the next follow up will be in July 2017.
	A checklist should be created that outlines acceptable supporting evidence for the eligibility of a discount. This checklist should be completed and signed by the pest control technicians after the production of supporting evidence. Advice should be sought from the Head of Financial and Information Governance as necessary.	Medium			
	The overall control framework for cash collection and banking from pest control services should be reviewed. This review should include the introduction of regular monitoring and reconciliations for the key stages of pest control income collection.	High			
Payments to foster carers	The head of permanence should conduct a review of foster carers who are in receipt of enhancements to the standard allowances to confirm that these remain appropriate.	Medium	director of children's social care	<del>June 2016</del> <del>February 2017</del> April 2017	We were advised that these recommendations are on-going. Management has agreed a revised implementation date of April 2017.
	The head of permanence should conduct a review of foster carers who are in receipt of enhancements to the standard allowances to confirm that these remain appropriate.	Medium			
	The head of service should analyse all conversions and identify those	Medium			

Audit	Recommendations	Priority	Director	Due Date	Comments
	<p>agreements for which no evidence of approval by management is in place to extend the fostering allowance rate over the two year period. Upon identification of these, the head of service should make a decision as to whether these should be amended to the NFN rate, or whether they should continue at their current rate. If a decision is made to continue with the present rate, sign-off should be evidenced on file confirming the rationale and termination date.</p>				
<p>Planning applications</p>	<p>A planning performance agreement should be retained for all cases, signed and dated prior to the work.</p>	<p>Medium</p>	<p>director of planning</p>	<p><del>October-2016</del> April 2017</p>	<p>We were advised by the planning projects manager and the director of planning that the department have had a delay in implementing the recommendations due to a piece of software (EXACOM) not being delivered by the IT provider in the original timescale agreed. It had been expected to be installed in October 2016 and fully operational by December 2016. However this was delayed until the beginning of March 2017. If the implementation of the software is further delayed, management has advised that an interim system of monitoring will be established by the end of April 2017. The date of next follow up is planned for June 2017.</p>
	<p>Management should introduce a check to confirm that a pre-planning application has been completed and fees agreed and received for all work prior to resources being assigned.</p>	<p>Medium</p>			
	<p>A procedure should be developed to enable an effective check that will confirm that the correct fee has been received prior to the commencement of the schedule of meetings.</p>	<p>Medium</p>			
	<p>A clear process should be implemented which evidences decisions made and resources assigned.</p>	<p>Medium</p>			
	<p>Budget monitoring information should be prepared on a monthly basis and retained. Any variances should be clearly annotated outlining any contributing factors and an action plan</p>	<p>Medium</p>			
<p>Sales and acquisitions</p>	<p>Signature check forms should be completed and uploaded to info@work on</p>	<p>Medium</p>	<p>director of customer</p>	<p><del>November-2016</del></p>	<p>Audit testing identified that the Section 125 checklist had not been scanned and saved</p>

Audit	Recommendations	Priority	Director	Due Date	Comments
- right to buy	the day of completion to ensure records are complete. The RTB manager should confirm that all checks are in place before the application is processed further. A note to this effect should be recorded.		experience	June 2017	<p>onto information@work (management had informed the team to do so after the audit). Our testing also identified that the officer who reviewed the S125 checklist could be the same person who carried out the discount calculation for right to buy. Therefore there was a lack of segregation of duties in this key control. Management has agreed revised implementation dates of June 2017.</p>
	As an interim control prior to the new database being introduced, set periodic spot checks should be undertaken to ensure data recorded in the 'Dave' monitoring spreadsheet reconciles to underlying data within iWorld. The RTB team should also issue weekly reminders of RTB2 due to the assigned officers to ensure compliance with timeframes, and not just report on overdue cases.	Medium			
	Calculation spreadsheet to be created and used by all RTB staff creating or checking discount calculations. A printout of the calculation will be saved to I@W	High			
Special guardianship orders	<p>A fundamental review of the SGO procedures, control framework and flow of information should be carried out. This needs to include the three teams involved in the SGO process to discuss ways in which cross team processes and communications can be enhanced to ensure that work is not duplicated and that sufficient and relevant information is being gathered and passed on efficiently.</p> <p>This should include a discussion on standardising the type of documents needed and apportioning responsibility for collecting each type, as well as</p>	High	director of children's social care	<p>June 2016  <del>November 2016</del>  May 2017</p>	<p>This was the second follow up audit. We confirmed that one medium recommendation relating to the development of a process flowchart for special guardianship orders and the specification of documentation needed had been implemented.</p> <p>The new procedures can be fully implemented in April 2017 when the new special guardianship orders (SGO) team is established, alongside a review panel for one off payments at the beginning of financial year 2017-18.</p> <p>To allow the new arrangements to become</p>

Audit	Recommendations	Priority	Director	Due Date	Comments
	<p>setting out clear guidance for the regular review of the continuing validity of SGO payments being made.</p> <p>The outcomes of this meeting should feed into the review and updating of the Kinship document and the preparation of any new formal documentation prepared.</p>				<p>fully operational, the next follow up will be June 2017.</p>
	<p>The exact amount and procedure to use whilst allowing one-off payments for settling in should be discussed and decided upon during the review in 1.</p>	<p>Medium</p>			

## 7. KEY PERFORMANCE INDICATORS

Description	Target	Actual and comment	RAG Rating
% of audits from the plan reported to the planned meeting of the audit, governance and standards committee	100%	To be reported as part of the progress report in July 2017, it is anticipated that all reports relating to 2016/17 are included plus those identified in section 3.	-
% of high and medium rated recommendations implemented by the agreed management implementation date	75%	82% - as reported in section 5 of this report.	Green
% of recommendations in draft report accepted by audit sponsor / owner	90%	To be reported as part of the progress report in July 2017, as we are currently awaiting management responses to the reports issued by BDO relating to 2016-17.	-
% of draft reports issued within 10 working days of the audit closure meeting	90%	100% - as reported in section 2 of this report	Green
% of audits from the plan completed to draft report stage by 31 March	100%	100% - all audits assigned to BDO relating to 2016-17 (where not deferred by management) were completed to draft report stage by 31 March 2017.	Green
% of returned audit satisfaction survey forms achieving a score of 4 or 5 out of 5	75%	To be reported as part of the progress report in July 2017 - BDO is to agree a new client survey with the chief audit executive, which will be issued when each report is finalised.	-
Annual chief officer and audit, governance and standards satisfaction survey results	Average of 75% and above	The first survey will be undertaken at the end of 2017-18.	-

# APPENDIX - ASSURANCE DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.