

# Audit, Governance and Standards Committee

Monday 20 September 2021

6.30 pm

Ground Floor Meeting Room G02A - 160 Tooley Street, London SE1 2QH

## Membership

Councillor James McAsh (Chair)  
Councillor Graham Neale (Vice-Chair)  
Councillor Humaira Ali  
Councillor Dora Dixon-Fyle MBE  
Councillor Tom Flynn  
Councillor Andy Simmons  
Councillor Michael Situ

## Reserves

Councillor Radha Burgess  
Councillor Sunil Chopra  
Councillor Nick Dolezal  
Councillor Eleanor Kerlake  
Councillor Adele Morris

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## INFORMATION FOR MEMBERS OF THE PUBLIC

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### Contact

Virginia Wynn-Jones or email: [virginia.wynn-jones@southwark.gov.uk](mailto:virginia.wynn-jones@southwark.gov.uk)

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Members of the committee are summoned to attend this meeting

**Eleanor Kelly**

Chief Executive

Date: 10 September 2021



# Audit, Governance and Standards Committee

Monday 20 September 2021

6.30 pm

Ground Floor Meeting Room G02A - 160 Tooley Street, London SE1 2QH

## Order of Business

Item No.	Title	Page No.
	<b>PART A - OPEN BUSINESS</b>	
	<p>The chair would like to remind members that prior to the meeting they have the opportunity to inform officers of particular areas of interest relating to reports on the agenda, in order for officers to undertake preparatory work to address matters that may arise during debate.</p>	
1.	<b>APOLOGIES FOR ABSENCE</b>	
	To receive any apologies for absence.	
2.	<b>CONFIRMATION OF VOTING MEMBERS</b>	
	A representative of each political group will confirm the voting members of the committee.	
3.	<b>NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT</b>	
	In special circumstances, an item of business may be added to an agenda within five clear days of the meeting.	
4.	<b>DISCLOSURE OF INTERESTS AND DISPENSATIONS</b>	
	Members to declare any personal interests and dispensation in respect of any item of business to be considered at this meeting.	
5.	<b>MINUTES</b>	1 - 3
	To approve as a correct record the minutes of the open section of the meeting held on 19 July 2021	

<b>Item No.</b>	<b>Title</b>	<b>Page No.</b>
<b>6.</b>	<b>GOVERNANCE CONVERSATION: DAVID QUIRKE-THORNTON</b>	
	A conversation with the strategic director of children's and adults' care	
<b>7.</b>	<b>INTERNAL AUDIT AND ANTI-FRAUD UPDATE SEPTEMBER 2021</b>	4 - 58
<b>8.</b>	<b>COVID-19 PANDEMIC: UPDATE SEPTEMBER 2021</b>	59 - 66
<b>9.</b>	<b>ANNUAL GOVERNANCE STATEMENT</b>	67 - 82
<b>10.</b>	<b>STATEMENT OF ACCOUNTS: FINAL</b>	
	To follow	
<b>11.</b>	<b>AUDIT FINDINGS REPORTS (ISA 260) - INCLUDING PENSION FUND</b>	
	To follow	

**ANY OTHER OPEN BUSINESS AS NOTIFIED AT THE START OF THE MEETING AND ACCEPTED BY THE CHAIR AS URGENT**

**EXCLUSION OF PRESS AND PUBLIC**

The following motion should be moved, seconded and approved if the sub-committee wishes to exclude the press and public to deal with reports revealing exempt information:

“That the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 1-7, Access to Information Procedure rules of the Constitution.”

**PART B - CLOSED BUSINESS**

Date: 10 September 2021



## Audit, Governance and Standards Committee

MINUTES of the OPEN section of the Audit, Governance and Standards Committee held on Monday 19 July 2021 at 6.30 pm at Ground Floor Meeting Room G01A - 160 Tooley Street, London SE1 2QH

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**PRESENT:** Councillor James McAsh (Chair)  
Councillor Graham Neale  
Councillor Dora Dixon-Fyle MBE  
Councillor Andy Simmons

**OTHER MEMBERS:** Councillor Humaira Ali

**OFFICER SUPPORT:** Duncan Whitfield, strategic director of finance and governance  
Doreen Forrester-Brown, director of law and governance  
Norman Coombe, head of governance team  
Rob Woollatt, finance  
Geraldine Chadwick, finance  
Jade Cheung, finance  
Greg Rubins, BDO  
Nick Baker, BDO  
Virginia Wynn-Jones, constitutional team

### 1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Michael Situ and Tom Flynn. Councillor Humaira Ali was unable to attend in person, but was in attendance via Zoom.

### 2. CONFIRMATION OF VOTING MEMBERS

The members present were confirmed as the voting members.

### 3. NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT

It was agreed that the date of the next meeting be moved from 8 September 2021 to 20 September 2021.

**4. DISCLOSURE OF INTERESTS AND DISPENSATIONS**

There were none.

**5. MINUTES**

The minutes of the meeting of 2 June 2021 were agreed as a correct record.

**6. GOVERNANCE CONVERSATION: DUNCAN WHITFIELD**

Duncan Whitfield presented to the committee. Members had questions for him.

It was noted that Cllr Dora Dixon-Fyle would contact Doreen Forrester-Brown after the meeting to discuss apprenticeships.

**7. DRAFT 2020-21 STATEMENT OF ACCOUNTS FOR SOUTHWARK COUNCIL**

Officers presented the report.

**RESOLVED:**

That the audit, governance and standards committee considered the draft 2020-21 statement of accounts (appendix 1 of the report).

**8. INTERNAL AUDIT ANNUAL REPORT AND ANNUAL STATEMENT OF ASSURANCE 2020-21 - FINAL**

Officers introduced the report alongside item 9. Members had questions for the officers.

Officers undertook to bring a written update on outstanding audits from 2017/18 to the committee.

**RESOLVED:**

That the audit, governance and standards committee noted the report, as attached at Appendix A of the report.

**9. INTERNAL AUDIT AND ANTI-FRAUD UPDATE JULY 2021****RESOLVED:**

That the audit, governance and standards committee noted the report, as attached at Appendix A of the report.

**10. COVID-19 PANDEMIC: UPDATE 19 JULY 2021**

Officers introduced the report. Members had questions for the officers.

Officers undertook to bring further information to members before the next meeting

**RESOLVED:**

That the audit, governance and standards committee noted the impact of the Covid-19 pandemic on spending and income and the government grants to support the council's financial losses in 2021-22.

**11. REVIEW OF MEMBER AND OFFICER PROTOCOL AND COMMUNICATIONS PROTOCOL**

Officers introduced the report. Members had questions for the officers.

Officers undertook to bring back a report on members' enquiries to a future meeting.

**RESOLVED:**

1. That the committee noted this report.
2. That the committee recommended to Council Assembly that the Member and Officer Protocol be amended as shown in Appendix 1, with the additional amendment tabled at the meeting, to be included after paragraph 19:

20. Chief Officers and the Chief Executive are responsible for ensuring that members receive responses to member's enquiries within the corporate timescales. Chief Officers and the Chief Executive must regularly review corporate performance and performance within their area of responsibility on member enquiries and ensure any underperformance is addressed.

Meeting ended at 8.10 pm

**CHAIR:**

**DATED:**

# Agenda Item 7

<b>Item No.</b> 7.	<b>Classification:</b> Open	<b>Date:</b> 20 September 2021	<b>Meeting Name:</b> Audit, governance and standards committee
<b>Report title:</b>		Internal audit and anti-fraud update September 2021	
<b>Ward(s) or groups affected:</b>		All	
<b>From:</b>		Strategic Director of Finance and Governance	

## RECOMMENDATIONS

1. That the audit, governance and standards committee note the report, as attached at Appendix A.

## BACKGROUND INFORMATION

2. This report informs the Audit, Governance and Standards Committee of progress against completion of the 2020-21 and 2021-22 internal audit plans.

## Policy implications

3. This report is not considered to have direct policy implications.

## Community impact statement

4. This report is not considered to contain any proposals that would have a significant impact on any particular community or group.

## Resource implications

5. If there are direct resource implications in this report, such as the payment of fees, these will be met from existing budget provision.

## Consultation

6. There has been no consultation on this report.

## SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

7. None required.

**BACKGROUND DOCUMENTS**

Background Papers	Held At	Contact
None		

**APPENDICES**

No.	Title
Appendix A	Informing the audit risk assessment for the council (including pension fund)
Appendix 2	Appendix 2 to Appendix A: Internal audit summary report - schools budgets and financial strategy reviews 2021-22

**AUDIT TRAIL**

<b>Lead Officer</b>	Duncan Whitfield, Strategic Director of Finance and Governance	
<b>Report Author</b>	Angela Mason-Bell, Greg Rubins, BDO	
<b>Version</b>	Final	
<b>Dated</b>	10 September 2021	
<b>Key Decision?</b>	No	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments sought</b>	<b>Comments included</b>
Director of Law and Governance	No	N/A
Strategic Director of Finance and Governance	No	N/A
<b>Cabinet Member</b>	No	No
<b>Date final report sent to Constitutional Team</b>	10 September 2021	



# **INTERNAL AUDIT AND ANTI-FRAUD PROGRESS REPORT**

**London Borough of Southwark**

*For presentation to the Audit, Governance and Standards Committee*

*20 September 2021*



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Appendix 2: Summary of individual schools audits (April to July 2021)	(separate report)

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# 1. SUMMARY OF INTERNAL AUDIT WORK

## **Purpose of report**

This report informs the Audit, Governance and Standards Committee of progress against completion of the 2020-21 and 2021-22 internal audit plans. It summarises the work we have undertaken, 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 methodology**

We have agreed terms of reference for each piece of work with the risk owner, 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 reporting 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 appendix 1 to this report.

## **Internal audit plan 2020-21**

All work relating to the 2020-21 plan has been completed. We are awaiting management responses to one draft report. Where reports have been finalised, the executive summaries are included in section 4 of this report.

## **Internal audit plan 2021-22**

The 2021-22 internal audit plan has commenced with the current status outlined within section 3 of this report.

## **Internal audit programme for schools 2021-22**

We have agreed a work programme with the Director of Education that will meet the assurance needs of the Council, whilst recognising that schools have faced significant pressure during the year and have remained closed for significant periods of time. We completed the first set of individual schools audits during the period April to July 2021. A summary report of the results of those audits is attached at appendix 2.

The plan for the remainder of the year is to be agreed with the Director of Education.

## **Follow up**

As part of finalising each audit report, we agree with management the actions that will be taken in response to each finding and recommendation. Within their response, management include the date by which the actions will be completed. Internal audit routinely follows up all high and medium recommendations made ahead of each Audit, Governance and Standards Committee. A full schedule of recommendations falling due in the period is issued to each Departmental Management Team.

The implementation rate for previous recommendations has decreased from 79% to 75%. There continues to be several audits for which the required updates and / or evidence is not being provided by the date of reporting. The implementation rate may be higher than 75%, however without management responses and supporting evidence we cannot confirm this.

## 2. ANTI-FRAUD UPDATE

BDO has been engaged to provide management support and strategic advice to the anti-fraud team at the Council. The lead for this work is Nick Baker (FCCA, ACFS), an accredited counter fraud senior manager and forensic accountant within BDO forensic services.

### Summary of investigations 2021-22 to date

2021-22	Corporate Anti-Fraud		Housing Waiting List		Right to Buy		COVID-19 Referrals	
	Open	Closed	Open	Closed	Open	Closed	Open	Closed
C/f	<b>18</b>		<b>0</b>		<b>9</b>		<b>18</b>	
April 2021	<b>17</b>	21	<b>2</b>	2	<b>6</b>	5	<b>1</b>	0
May	<b>12</b>	9	<b>9</b>	2	<b>3</b>	6	<b>3</b>	0
June	<b>15</b>	13	<b>1</b>	2	<b>1</b>	1	<b>1</b>	0
July	<b>6</b>	12	<b>7</b>	8	<b>3</b>	2	<b>0</b>	0
August	<b>8</b>	7	<b>4</b>	4	<b>4</b>	4	<b>8</b>	8
Total	<b>76</b>	62	<b>23</b>	18	<b>26</b>	18	<b>31</b>	

\* The figures represent investigations from 1 April 2021 to 31 August 2021.

### Active investigations

There are currently 39 active investigations.

- Children & Adult Services      3 cases
- Environment & Leisure            1 case
- Housing & Modernisation        6 cases
- Finance & Governance            9 cases
- Regeneration & Planning        1 case
- COVID-19
  - Business Grants-            10 cases
  - Community Grants-        9 cases.

In total six cases relate to former Council employees and two cases relate to a current Council employee. No further information in respect of these investigations can be given at this time.

### Pro-active investigations

As we start to look at the new normal we will review The Anti-Fraud Strategy and incorporate the Fraud Response Protocol and the Anti-Fraud Response Plan to cover the period from October 2020 to March 2021.

Facilities' management has recently agreed the use of certain rooms for witness and caution interviews which will allow us to pick up the cases which require interviews to obtain the relevant evidence to allow us to conclude our investigations, held up due to lock down. We will be inviting attendance for 18 Covid-19 related cases and 7 corporate cases.

Following the recent internal audit on Fraud Protocols, 272 staff have been identified as

having responsibility for a finance function such as raising or approving a purchase order or an invoice at the Council who require fraud awareness training around anti-tax evasion. We will deliver relevant anti-tax evasion awareness training to this group and use the feedback to inform our updated fraud awareness e-learning package. We plan to start the delivery of this training in November 2021 as part of the annual International Fraud week.

### **Update on fraud response policy**

The Council's Fraud Response Plan sets out in detail the Council's approach to identifying and dealing with potential fraud, the responsibilities of staff and the public in reporting suspicions of fraud, the approach the Council is committed to in investigating allegations of fraud, and the possible sanctions open to the Council when fraud is proven to have taken place. A meeting will be scheduled in September with the Strategic Director Finance & Governance to review the policy.

### **Grant update**

Following a direction from BEIS concerning recovery of grant payments we reviewed with Exchequer Services to determine which cases should be referred to BEIS releasing resources so the Anti-Fraud Team could focus on actual fraud cases.

The Anti-Fraud Team will write to Covid-19 grant recipients that concern payments made in error to give the option to return payments or arrange a repayment plan which must meet BEIUS guidelines i.e. £10k repaid within 12 months, £25k to be repaid within 24 months. Businesses that do not respond to this will be referred to BEIS for recovery action.

The current value of these cases exceed £285k, comprising Small Business Rates 5 x £10k, Retail Hospitality & Leisure 6 x £10k and 7 x £25k.

### **National Fraud Initiative (NFI)**

The NFI match review continues; we have processed 2455 matches which has so far identified in excess of £69k of recoverable funds. We have not received all our matches and we are pursuing The Cabinet Office, National Fraud Initiative to confirm when we are likely to receive the matches. There has been no significant change to NFI figures since the last report. We are waiting for further matches to be released in relation to Creditors history.

### **Staff Training**

The Fraud and Verification Officer and Fraud Trainee have both successfully passed their related courses. The team availability has been reduced due to medical issues, including catching Covid-19.

### **Other business**

We are currently rewriting the fraud Awareness training to incorporate changes to Anti-Tax Evasion legislation. We will also look at refreshing other training i.e. bribery & corruption as it has been some years since staff have received any refresher training. We seek to reduce the mandatory training for new joiners to ensure the fraud awareness training is completed within 6 months of joining and not the current 12 months.

### 3. SUMMARY OF WORK IN PROGRESS

#### INTERNAL AUDIT PLAN 2020-21

The table below includes those audits currently in draft or finalised since the last meeting of the Audit, Governance and Standards Committee. For those shaded in grey, the executive summaries are included in section 4.

Audit	Director / Audit Sponsor	Days	ToR issued	Fieldwork	QA / Reporting	Design	Operational Effectiveness
<b>2020-21</b>							
Anti-facilitation of Tax Evasion	Strategic Director of Finance and Governance	15	✓	✓	Final report	Moderate	Moderate
Bupa Overpayments	Strategic Directors of Finance and Governance, and Childrens' and Adults	15	✓	✓	Final report	NA Advisory	
Payroll and HR	Director of Exchequer Services	25	✓	✓	Final report	Moderate	Limited
SAP Scheme of Delegation and Authorisations	Director of Exchequer Services	15	✓	✓	Final report	Moderate	Moderate
Accounts Receivable and Debt Management	Directors of Exchequer, Environment and Leisure	15	✓	✓	Draft Report issued 06/07/21 -partial management response received, being followed up		
South Dock Marina	Director of Leisure	12	✓	✓	✓		

Audit	Director / Audit Sponsor	Days	ToR issued	Fieldwork	QA / Reporting	Design	Operational Effectiveness
					Draft Report issued 07/07/21 - following management response, further evidence and testing to be undertaken		
Accounts Payable	Director of Exchequer Services	15	✓	✓	✓ Draft Report issued 15/07/21 management response received with additional evidence and report being updated		

## INTERNAL AUDIT PLAN 2021-22

The table below includes those audits where planning work or fieldwork has commenced:

Audit	Director / Audit Sponsor	Days	ToR issued	Fieldwork	QA / Reporting	Design	Operational Effectiveness
<b>2021-22</b>							
Supporting Families Grant	Director of Children and Families	24	Council guidance compared to new MHCLG reviewed and audits completed on a sample of 10% of claims on a quarterly basis.		For the quarter to 30 June 2021, some proposed amendments to the guidance were made. No exceptions were noted on the sample of claims reviewed.		
Commercial Property Portfolio	Director of Planning and Growth	15	✓	✓	✓ Final	Substantial	Substantial
Adoption Services	Director of Children and Families	15	✓	✓	✓ Draft 28/07/2021 management response overdue		
All Age Disabilities Service	Director of Adult Social Care	25	✓	✓	✓ Draft 12/08/2021 management response received and under review		
NNDR	Director of Exchequer Services	15	✓	✓	✓ Draft 16/08/2021 management response received and under review		

Audit	Director / Audit Sponsor	Days	ToR issued	Fieldwork	QA / Reporting	Design	Operational Effectiveness
Data Protection	Director of Law and Governance	15	✓	✓	✓ Draft 25/08/2021		
TMOs - Cyclical Compliance Audits - JMB Leathermarket	Director of Communities	15	✓	✓	✓ Draft 26/08/2021		
TMOs - Cyclical Compliance Audits - Cooper Close	Director of Communities	10	✓	✓	✓ Draft 31/08/2021		
Fraud Protocols	Strategic Director of Finance and Governance	20	✓	✓	✓ Draft 09/09/2021		
Youth Offending Service	Director of Children and Families	15	✓	✓	✓ Draft 09/09/2021		
Contracts Register	Director of Law and Democracy	25	✓	✓	✓		
Fairer Future Procurement Framework	Director of Law & Governance	25	✓	✓	✓		
Financial planning and budget monitoring	Strategic Director of Finance and Governance	25	✓	✓	✓		
Objection Review	Strategic Director of Finance and Governance		✓	✓	✓		
Suspense Account Management	Director of Exchequer Services	15	✓	✓	✓		

Audit	Director / Audit Sponsor	Days	ToR issued	Fieldwork	QA / Reporting	Design	Operational Effectiveness
Customer Access Strategy	Director of Customer Experience / Director of Exchequer Services	15	✓	✓			
Covid-19 Expenditure	Strategic Director of Finance and Governance	15	✓	✓			
Departmental response to schools in financial difficulties	Director of Education	15	✓	✓			
Health and Safety	Director of Asset Management	20	✓	✓			
Older People's Services	Director of Adult Social Care	15	✓	✓			
IT - Hornbill Service Desk	Head of ICT	15	✓ Draft				
Pensions Administration	Strategic Director of Finance and Governance / Pensions Manager	15	✓ Draft				
Schools Budget and Financial Strategy - Comber Grove Primary School	Director of Education	10	✓	✓	✓ Final	Moderate	Moderate
Schools Budget and Financial Strategy - Dog Kennel Hill Primary School	Director of Education	10	✓	✓	✓ Final	Limited	Limited
Schools Budget and Financial Strategy - Rotherhithe Primary School	Director of Education	10	✓	✓	✓ Final	Limited	Limited
Schools Budget and Financial Strategy - Cobourg Primary School	Director of Education	10	✓	✓	✓ Final	Moderate	Substantial

Audit	Director / Audit Sponsor	Days	ToR issued	Fieldwork	QA / Reporting	Design	Operational Effectiveness
Schools Budget and Financial Strategy - St Francesca Cabrini Primary School	Director of Education	10	✓	✓	✓ Draft 26/07/2021	Moderate	Moderate
Schools Budget and Financial Strategy - St Joseph's Catholic Infants School	Director of Education	10	✓	✓	✓ Draft 02/08/2021	Moderate	Substantial

## 4. EXECUTIVE SUMMARIES OF REPORTS FINALISED SINCE THE LAST MEETING

ADD03 <b>Anti-facilitation of tax evasion</b> September 2021		LEVEL OF ASSURANCE		SUMMARY OF RECOMMENDATIONS	
		Design	Operational effectiveness	High	-
		Moderate	Moderate	Medium	3
				Low	-
<b>Purpose of audit:</b>	To review the controls in place in identifying, reporting and recording suspected tax evasion to ensure the Council is able to mitigate the risk of facilitating tax evasion.	<b>Added value:</b>	Our survey has identified gaps in the understanding and training of officers in this area.		
<p><b>Background:</b></p> <p>An anti-tax evasion policy was put in place by the Council in May 2020 following the Criminal Finances Act 2017 which created two new corporate criminal offences relating to facilitation of tax evasion. If the Council does not have procedures in place to prevent a person providing a service for it or on its behalf (this includes staff, agency workers, volunteers and contractors) from facilitating tax evasion, this may result in an offence being committed by it. The policy sets out information relating to the identification, reporting and recording of suspected tax evasion. For the facilitation of tax evasion to be a criminal act, a person must have deliberately and dishonestly helped another person to evade tax; this does not include the accidental, ignorant or negligent facilitation of tax evasion.</p> <p>The government has published guidance on the procedures that relevant bodies can put in place to prevent persons acting in the capacity of an associated person from committing tax evasion facilitation offences. Although it is not entirely clear that the legislation applies to local authorities, it is considered that HMRC are likely to regard a local authority as a body corporate, particularly as they have not been specifically excluded. Organisations are encouraged to self-report to the HMRC if they have failed to prevent the criminal facilitation of tax evasion and consider that they may be guilty of one of the offences under the Criminal Finances Act 2017, but if a relevant body can demonstrate that it has put in place a system of reasonable procedures to identify and mitigate its tax evasion facilitation risk, this would be a defence in the event of a prosecution.</p> <p>We sent a link to a survey to 272 staff responsible for a finance function such as raising or approving a purchase order or an invoice at the Council. The survey link was active for two weeks from 27 April to 7 May 2021. We received 99 responses amounting to a response rate of 36.40%. The aim of this survey was to confirm whether staff were aware of the anti-tax evasion policy and who the nominated officers are, what steps they would take in case they suspect a tax evasion related activity and whether they believed they were sufficiently trained in this area.</p> <p><b>Good Practice:</b></p> <p>The Council, the nominated officers to whom suspicions of tax evasion should be reported, the reporting procedures and staff training. The policy was created in May 2020 and is due to be reviewed in May 2023, or earlier in the event of new legislation.</p>					

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We reviewed a sample of 20 new vendors who were set up on SAP since 1 April 2020 to assess whether adequate due diligence checks were undertaken to confirm these include elements of their credibility and legitimacy for the purpose of anti-tax evasion. We identified the following for all 20 cases:

- A new vendor form was attached to their SAP account
  - Evidence of Companies House check was available
  - Bank details were recorded.
- The Council has nominated the Strategic Director of Finance and Governance, as the nominated officer to whom suspicions of tax evasion activity should be reported. The Council also has nominated the Fraud Manager as the nominated deputy officer to whom such suspicions should be reported.
  - We reviewed a sample of 20 payments made to Non-VAT registered traders to assess if reasonable procedures were in place in relation to preventing facilitation of tax evasion. Reasonable procedures include checking if VAT is erroneously charged and paid and the VAT registration number included on the invoice indicating that the trader is a VAT-registered trader. We identified the following for all 20 cases:
    - The invoice was attached on the vendor's SAP account
    - No VAT was charged
    - The VAT registration number was not included on the invoice.

**Key Findings:**

- 44 out of 99 officers were not aware of the Council's anti-tax evasion policy.
- 68 out of 99 officers were not aware of who the nominated officers are in the Council to whom suspicions of tax evasion activity should be reported. Where the staff responded that they were aware of who the nominated officers are, we asked them to confirm the same. Out of 31 responses, the breakdown is as follows:
  - 74% responded that the Strategic Director of Finance and Governance is the nominated officer
  - 19% responded that the nominated officer is either the Senior Investigation Officer, Fraud and Verification Officer or Fraud Unit.
  - 7% responded the Director of Law and Democracy and Head of Local Economy as the nominated officers.
- We conducted a walk through with the Strategic Lead - HR Customer Delivery on the processes around risk assessments being undertaken for the 'associated persons' within the Council which includes employees, agents, intermediaries and contractors. We were advised that the usual hiring checks are undertaken however, the 'associated persons' are not risk assessed considering the motive, means and opportunity for facilitating tax evasion.
- 80 out of 99 officers did not believe they were sufficiently trained in identifying, reporting and recording of tax evasion related activities. We asked the respondents to confirm which areas they would like to be trained on. The most common response amongst the ones listed was the ability to identify tax-evasion and practical case studies to help them understand the requirement better.
- We conducted a walk through with the Senior Investigation Officer to discuss the training arrangements in place in relation to anti-facilitation of tax evasion. We noted that an on-line fraud awareness training is in place for staff which is mandatory as part of their induction. We were advised that the Anti-fraud Team is aiming to update the training material as it may have become out of date.

**Conclusion:**

We concluded a moderate opinion on both the control design and operational effectiveness of the controls in place. The control framework is designed to address the risks to the Council considered in our audit. The Council has an anti-tax evasion policy in place which includes information on the obligations of the Council, the nominated officers to whom suspicions of tax evasion should be reported, the reporting procedure and staff training. Based on our sample testing, we identified that due diligence is adequately carried out when dealing with new vendors to assess their credibility and legitimacy. We also identified that reasonable procedures are in place relating to payments made to non-VAT registered traders. We were advised that the 'associated persons', including agency workers, volunteers and contractors are not risk assessed considering the motive, means and opportunity for them in facilitating tax evasion.

We identified some issues in the operational effectiveness of the controls in place, including some staff not being aware of the policy or who the nominated officers are to whom suspicions of tax evasion should be reported. We also identified that the training arrangements in place were inadequate and staff did not believe they were sufficiently trained in this area.

**Looking forward: supporting the Council's journey from moderate to substantial assurance**

Design	<ul style="list-style-type: none"> <li>Ensure that risk assessments are undertaken for those who act on the Council's behalf. Given the size of the workforce at the Council, it is not practical to undertake a risk assessment for all the 'associated persons'. Therefore, a risk assessment should be carried out and documented based on the job roles.</li> </ul>
Effectiveness	<ul style="list-style-type: none"> <li>Ensure that staff are periodically reminded that the Council has an anti-tax evasion policy in place which governs the identification, reporting and recording of suspected tax evasion. They should also be reminded of who the nominated officers are and the implications of reporting a suspected tax evasion activity to any other officer apart from the nominated ones.</li> <li>Ensure that the training material is created and training provided to all staff involved in a finance function such as raising or approving a purchase order or an invoice. The training completion rate should be tracked and reported to the nominated officers.</li> </ul>

<b>ADD03</b> <b>BUPA Overpayments</b> <b>August 2021</b>		<b>LEVEL OF ASSURANCE</b>		<b>SUMMARY OF RECOMMENDATIONS</b>	
		Design	Operational effectiveness	High	7
		N/A - Advisory Review		Medium	1
				Low	-
<b>Purpose of audit:</b>	<p>The purpose of the review was to support the Council in establishing an accurate funding situation, to check that the correct fees are being paid and that the overpayments are recovered. The review focussed primarily on Collingwood and Havelock, but was cognisant that a wider issue may be present with regards to the procedures and controls over the generation of payments to BUPA.</p> <p>This has been an iterative exercise, with Internal Audit working in collaboration with the Council's Professional Finance Services Division, FC&amp;P, Placements Team and Systems and Support Team to understand the designed controls and local processes in place, to support the analysis of data held and provide advice on how the Mosaic system operates.</p> <p>The review was extended to include a testing sample across a wide range of providers and service provision to test the internal controls, identify any inappropriate working practices and to mitigate the risk of overpayments and financial loss.</p>				
<p><b>Background:</b></p> <p>The Care Act 2014 sets out the duties of local authorities in relation to assessing people's needs and their eligibility for publicly funded adult social care and support following a financial assessment. Local authorities carry out needs assessments to determine individual care and support requirements, produce a plan, allocate a personal budget, carry out a financial assessment to determine a client's contribution to the cost of care, and engage with local providers for care and support services. Southwark Council engages with several local care homes for permanent nursing placements and residential care on block contracts and on a spot basis. For the financial year 2019/20, the Council paid £34.3m for permanent nursing and residential care placements, followed by £23.5m in financial year 2020/21 (to December 2020).</p> <p>BUPA Care Homes provides permanent nursing and residential placements, and third party top up care to the Council's clients at six locations. For the financial year 2019/20, £1.71m was paid to BUPA in regards to permanent nursing and residential care for 55 clients, followed by £997k for 51 clients in financial year 2020/21 (to December 2020). The BUPA Financial Administration team contacted the Council on 14 May 2020 and subsequently on 16 June 2020 due to an absence of response, to draw attention to a number of anomalies with payments made relating to nine clients. In particular BUPA referenced two clients, in regards to whom, significant sums had been paid with a combined overpayment of £130,886.50. BUPA highlighted that the Council's remittances narrative on their bank statement did not provide sufficient information other than the payments had been backdated to July 2018.</p> <p>On 27 August 2020, the Council processed a clawback of £123,333.48, after adjusting annual uplift underpayments. But instead of clawing back, they made a payment of further £123,333.48 due to a clerical error. After investigation, the Process Manager in the Council's Financial Control and Processing (FC&amp;P) Team confirmed on 9 September 2020 that double the previous amount would have to be clawed back.</p>					

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On 10 September 2020, the Team Manager Placements wrote to BUPA confirming a cumulative total of £387,440.12 had been paid in errors and as such a refund was required. In response, BUPA requested a full breakdown of the cumulative total to be refunded. The breakdown along with the supporting documentary evidence was sent to BUPA, including general ledger extracts and purchase orders (PO). These resulted in further queries raised by BUPA including the accuracy of service rates and client contributions collected as the PO narratives could not be reconciled to the amounts received by BUPA.

On 30 September 2020, the Team Manager Placements emailed BUPA confirming the cumulative overpayment amount has increased to £452,950.47 and provided evidence to support the claim. BUPA only agreed to a partial refund of £344,736.47, as further discrepancies were identified in the evidence and calculation sent to them by the Team Manager Placements. The Council accepted the partial refund of £344,736.47 and is currently investigating the outstanding balance of £108,214, with ongoing assistance from Internal Audit. At the time of draft reporting, the Council has processed a clawback of £193,720.06, after adjusting annual uplift underpayments and has made further payments of £108, 214.

#### **Key Findings:**

- The review of the financial information for 76 client accounts identified overpayments of £141,443.24 for the 40 sampled BUPA clients residing at Collingwood and Havelock Court (including the eight clients already queried by BUPA) and £248,412.08 for 36 other client accounts selected from the wider population.
- The POs include both historical and current information, which makes it difficult to understand what is covered. The root cause of this issue was the ongoing and prolonged use of the same POs.
- Detailed procedures and guidance are available for the key operational modules in Mosaic, including Social workers, Placements Team, Approval Panel, Client Affairs and Supported Living. However, there is no documented guidance for Mosaic's finance module.
- A training module has not been developed for new starters in the operational teams. New starters are provided with on the job training by the individual teams themselves and the Systems and Support team has little or no involvement in the process. This has led to inappropriate working practices and absence of knowledge and expertise, in the operational and finance teams.
- Limited information is recorded in Mosaic relating to the Children's and Adult's Services Department's Scheme of Management (SoM) and the financial thresholds. A reconciliation exercise we conducted to confirm that the Mosaic SoD is in line with the Children and Adults Services (CAS) Scheme of Management (SoM) identified several exceptions and identified that POs are being approved by individuals over their financial limit. Similar issues were identified in the approval of nursing and residential placements and care packages. The Systems and Support team confirmed that the above limits were setup in Mosaic in April 2016 and no subsequent reviews have been conducted to ensure that they remain aligned to the SoM.
- The Professional Finance Service Division is not monitoring the accuracy of the financial information incorporated within Mosaic or reviewing payments due for any duplicate payments prior to payments being made to suppliers.
- The review identified that the end date for the POs for all clients, are always left open to facilitate regular monthly payments without delays. A review of the ongoing purchase orders for the sampled clients identified 12% were raised in FY 2016-17, 4% in FY 2017-18, 10% in FY 2018-19 and 23% in FY 2019-20. Only 51% were raised in 2020-21. No reviews have been conducted on the open POs to ensure they contain correct amounts and are still valid.

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**Conclusion:**

Our review identified significant gaps in the control framework relating to payment processing from the Mosaic system. The review initially included only BUPA queries including eight clients but was then extended to a wider sample including 68 further clients to identify deficiencies and weaknesses in the current system of controls.

We have concluded that there is a risk that several potential client accounts exist in the financial systems where overpayments have been made either due to the death of the client, or clerical errors including duplication and the amounts have not been clawed back. No controls are in place to monitor potential overpayments or ongoing regular payments as the Professional Finance Services Division is not checking the accuracy of information held in Mosaic, and based upon our review of POs, this information is not based upon the latest cost information for the placements made.

Significant overpayments have been identified, of which some have been reclaimed, however there are further overpayments of £267,737.83 that need to be reclaimed identified within this review.

KFC05 Payroll and HR September 2021		LEVEL OF ASSURANCE		SUMMARY OF RECOMMENDATIONS	
		Design	Operational effectiveness	High	-
		Moderate	Limited	Medium	6
				Low	1
<b>Purpose of audit:</b>	To provide assurance on the adequacy and operational effectiveness of the key controls in place to manage the identified risks in respect of the payroll and benefits to staff.	<b>Added value:</b>	We performed a data analytics exercise on 4847 employees on SAP for the risk areas and undertook targeted testing to assess whether the payroll data is complete and accurate. The results in all areas were satisfactory.		
<p><b>Background:</b></p> <p>Southwark Council processes the monthly payroll for approximately 4,600 staff. Within the Exchequer Services Division of the Finance and Governance Department, the Council has a Financial Control and Processing Team which includes the officers responsible for SAP Payroll management. The Council has a HR service which has moved from the Modernise Division of the Housing and Modernisation Department to the Chief Executive's Department from 1 September 2020. The HR service includes the Head of HR and three HR operational teams (HR Customer Delivery, HR Business Partnering and HR Policy and Projects). Council managers work with the HR operational teams with regards to starters, leavers and variations for the staff that have line management responsibilities. HR notifies the Payroll Team for the financial aspects of these changes to be reflected on the payroll system.</p> <p>The Council operates an employee self-service (ESS) system where processing/approval regarding sickness, annual leave, unpaid leave, overtime and expenses can be undertaken. If individuals cannot access the system then managers can do this on the individual's behalf. There are some services that are not on ESS such as Southwark Cleaning where managers issue payroll with Excel documents of time to be compensated which is then processed.</p> <p><b>Good Practice:</b></p> <ul style="list-style-type: none"> <li>• Controls built into the SAP system do not allow duplicate payments to be processed.</li> <li>• HR notifies the Payroll team regarding leavers on a timely basis, consequently we found through testing and data analytics that leavers are removed from the payroll system on a timely basis.</li> <li>• We recalculated the salaries created by SBS Payroll Services for a sample of five employees and confirmed that information was translated correctly from timesheets through to the final payment.</li> </ul> <p>Hours and jobs logged on 'Impact' were reflected appropriately in the 'master spreadsheet' and all bonuses were accurately calculated and paid. We recalculated all the additional payment figures with the 'Payroll Manager and no exceptions were identified.</p> <p><b>Key Findings:</b></p> <ul style="list-style-type: none"> <li>• We tested a sample of ten overpayments; eight instances were identified where late notification of leavers from the Line Manager to HR delayed the notification to Payroll team, which eventually led to overpayments.</li> <li>• Segregation of duties does not exist between preparing and reviewing monthly payroll reconciliations as both these tasks are currently being</li> </ul>					

<p>performed by the Principal SAP Officer. Additionally, monthly payroll reconciliations are neither signed nor dated by the preparer.</p> <ul style="list-style-type: none"> <li>• We tested a sample of ten new starters; nine instances were identified where HR notified the Payroll Team after the employee’s start date. Out of nine, there were five instances where the delay was at least ten days or more.</li> <li>• We were informed that the Principal SAP Officer randomly checks payroll parameters and recalculates employee salaries to confirm that these are accurate, however, this activity is not documented and could not be evidenced during fieldwork.</li> <li>• Once the payroll is calculated, the Principal SAP Officer emails BACS requests to SAP Finance and HR Systems Manager for processing. However, the final payroll is not reviewed/approved by another person before the BACS request is processed.</li> <li>• We confirmed that a two year contract is in place for the delivery of IT consulting and application support services. We were informed that in the unlikely event that the Council is unable to run payroll normally, the contractor will take the responsibility to ensure continuity. Upon review of the contract, we found that this responsibility is not explicitly listed, rather it has general clauses covering IT Consulting and Application Support Services.</li> </ul> <p><b>Conclusion:</b></p> <p>Based upon the work performed, our review of the controls relating to Payroll and HR found some good practices, however, there are some areas where improvements to the controls framework can be made. For instance segregation of duties does not exist between preparing and reviewing monthly payroll reconciliations and the final payroll is not reviewed/approved by another person before the BACS request is processed.</p> <p>We therefore provided moderate assurance over the control design and limited assurance over the operational effectiveness of the controls in place.</p>	
<p><b>Looking forward: supporting the Council’s journey from moderate / limited to substantial assurance</b></p>	
Design	<ul style="list-style-type: none"> <li>• Segregation of duties should be introduced between the preparation and review of the monthly payroll reconciliation. Monthly reconciliation should be signed and dated by both the preparer and reviewer.</li> <li>• The process pertaining to review of payroll parameters in SAP should be documented.</li> <li>• Final payroll should be formally reviewed and approved by a different individual before releasing payments to employees and this activity should be documented.</li> <li>• The scope and extent of business continuity services to be provided by Zalaris to the Council should be agreed and documented as part of a contract.</li> </ul>
Effectiveness	<ul style="list-style-type: none"> <li>• Staff should be advised to copy in the HR Team when sending resignation letters so that the payroll team can be informed about leavers on a timely basis.</li> <li>• The HR team should notify payroll about new starters no later than their first day at work.</li> </ul>

KFC11 SAP Scheme of Delegation and Authorisation September 2021		LEVEL OF ASSURANCE		SUMMARY OF RECOMMENDATIONS	
		Design	Operational effectiveness	High	-
		Moderate	Moderate	Medium	2
				Low	2
<b>Purpose of audit:</b>	We completed a review of the SAP scheme of delegation for the authorisation of payments, including consideration on the appropriateness of the limits for different Council staff, usage of the limits and if they are adhered to.				
<p><b>Background:</b></p> <p>The Council's schemes of management set out the details of who has the authority to commit expenditure, and the financial limits of their authority. Although the delegations of authority will generally allow management to commit to expenditure, there will be levels of expenditure, or financial decisions that may be reserved for the Council or committees. Compliance with the delegated authorities ensure that financial decisions are taken at the appropriate level and all expenditure is appropriately authorised on SAP.</p> <p>The policies, procedures and guidance to staff should be in line with the financial delegations of authority. In addition, the authorisation levels set within systems used to order, and pay for, goods and services should also reflect the authorisation limits in the delegations. To record an officer as a delegated authority on SAP, a form is completed and their role is compared with the scheme of management to confirm their financial limits.</p> <p><b>Good Practice:</b></p> <ul style="list-style-type: none"> <li>• Each of the Council's departments has a documented scheme of management</li> <li>• The schemes of management had all been updated within the last 12 months</li> <li>• From our sample testing of 20 payments on SAP from 1 April 2020 we confirmed that all were authorised by the correct individual as per the departmental scheme of management</li> <li>• In addition, all 20 payments were completed with clear segregation of duties between the requester and authoriser of purchase orders.</li> </ul> <p><b>Key Findings:</b></p> <ul style="list-style-type: none"> <li>• We reviewed a sample of nine officers who have been added onto SAP since 1 January 2020 and identified the following exceptions: <ul style="list-style-type: none"> <li>- On the two out of three occasions, where transactional limits had been requested, whilst the SAP user limits were comparable to those for officers undertaking similar roles, they had not been included within the scheme of management.</li> <li>- On one occasion, access was granted on SAP before the date on the signed authoriser's form. On another occasion, due to covid restrictions whilst authorisation had been provided by senior management via email, a completed authorisation form was not held.</li> </ul> </li> </ul>					

- Through the use of data analytics, we compared a list of SAP users against a list of leavers in the last 12 months and identified that there were seven staff who had left the Council with SAP access.
- We also compared a list of officers who changed their roles in the last 12 months who have SAP access and found that the FC&P team had not been made aware if an individual changes roles.

**Conclusion:**

The control framework is generally well designed. However, our review identified areas where the controls in place were not being followed and operating effectively. In particular, the SAP user authorisation forms designed to ensure a consistent approach to authorizing user access were not always being fully completed and signed off prior to access being granted.

With regard to control design, issues were identified with regard to processes adopted for ensuring that leavers are removed from the system in a timely manner and for ensuring that changes to users’ roles within the Council are appropriately communicated to the FC&P team.

We have therefore concluded a moderate opinion for both the control design and operational effectiveness.

**Looking forward: supporting the Council’s journey from moderate to substantial assurance**

Design	<ul style="list-style-type: none"> <li>• The FC&amp;P team should ensure that existing quarterly reviews of user access levels undertaken by the SAP team are completed effectively and should request evidence to show this is the case.</li> <li>• All council staff should be reminded of the requirement to advise the SAP team of any changes to a user’s access limits or role irrespective if the SAP limits do not change consequently.</li> </ul>
Effectiveness	<ul style="list-style-type: none"> <li>• Staff should be reminded of the necessity of completing the standard form when requesting authorisation of users onto SAP and FC&amp;P should reject any requests not completed in this required format.</li> </ul>

CX22 Commercial Property Portfolio August 2021		LEVEL OF ASSURANCE		SUMMARY OF RECOMMENDATIONS	
		Design	Operational effectiveness	High	-
		Substantial	Substantial	Medium	-
				Low	-
<b>Purpose of audit:</b>	To provide assurance over the design and operational effectiveness of the control framework for managing the Council's commercial property portfolio. We also considered the controls and information flows for the management of debtors and arrears.  We did not assess whether the Council achieves value for money from its commercial properties.	<b>Added value:</b>	<p>Using the May 2021 aged debt report, we completed an analysis of aged commercial property debtors. The total debt as of that month was £9,595,224 and was spread across 792 debtors. The most notable findings were:</p> <ul style="list-style-type: none"> <li>• Nearly one third of the total debt (29%) is over 12 months overdue</li> <li>• Three cost centres (RH307, RH204, and RH207) have disproportionately higher debt levels compared to the number of tenants under those cost centres. <ul style="list-style-type: none"> <li>▫ RH307: Accounts for 7% of tenants and 12% of the total debt</li> <li>▫ RH204: Accounts for 1% of tenants and 9% of the total debt</li> <li>▫ RH207: Accounts for 1% of tenants and 5% of the total debt</li> </ul> </li> <li>• 13% of the debt is owed by tenants who no longer have active leases.</li> </ul> <p>Nearly all business types have been affected by the Covid-19 pandemic and so although debt levels have increased over this time period, this is unsurprising given the restrictions on the methods of recovery action available. The Council has demonstrated it routinely monitors debt levels and has had to take a different approach to recovery during the pandemic, with the focus more on dialogue rather than direct action, as directed by the Asset Management Plan. We believe this approach, as well as focussing on pre-pandemic debts, is reasonable given the circumstances.</p>		
<b>Background:</b> Southwark Council is the landlord to over 35,000 dwellings, 15,000 residential leaseholds and more than 5,000 other properties. This includes 500 low rent local businesses such as retail establishments and a number of acquisitions over the last four to five years which generate higher income for the Council as investments. The Property Team consists of approximately 30 staff members and half of the team support with the management of commercial properties. The Manhattan system, used for managing the Council's income generating properties, has recently been upgraded to a cloud					

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based system which went live on 10 September 2020. Data from the previous version of the system was migrated and a reconciliation was carried out to ensure that this was completed successfully. The system is used to record properties and raise bills, and the rent collection system feeds into Manhattan. The system also holds a record of all lease agreements and provides reminders for rent reviews and lease renewals.

Total rental income of £21-£22m per annum is managed through the Manhattan system.

**Good Practice:**

- There is clear, up-to-date guidance in place relating to the management of commercial properties.
- Data was accurately and completely migrated onto the new cloud-based system.
- Reconciliation of rental income and expenditure between the various systems (Manhattan, the SAP finance system and AIM income manager) is routine and accurate.
- Appropriate controls are in place to ensure Manhattan is updated to reflect new acquisitions.

Commercial property debt levels are routinely monitored. More information on the level of debt is provided in the added value section.

**Key Findings:**

We have raised no recommendations in respect of our review of the design and operational effectiveness of the identified risks.

**Conclusion:**

The Council has appropriate controls and processes in place to properly manage its commercial property portfolio. We found each control is well designed and operating as expected.

Up-to-date, comprehensive guidance is readily available to staff to help ensure the Manhattan system is kept accurate. Our sample testing demonstrated data was accurately migrated to the cloud. We obtained evidence to show regular reconciliation takes place, new properties have been added to the system and debt levels are regularly monitored to help inform recovery action, which has been restricted by Covid-19

We also found the information flows for the management of debtors and arrears to be sufficient. The Debt Recovery team obtain daily debt reports from Manhattan to inform their next course of recovery action, while External Agents provide monthly updates on the debts they seek to recover. Statistics (such as collection rates and the total debt) are reported monthly to key directors and officers.

Therefore we have concluded an overall opinion of substantial assurance for both the design and operational effectiveness of the control framework.

## 5. SUMMARY OF RECOMMENDATIONS STATUS

Of the 341 high and medium recommendations relating to 2017-18 to 2020-21, that have fallen due as at the end of June 2021, we have confirmed with reference to evidence that 270 have been fully implemented or superseded, representing 75%. The chart shows the relative percentages for each of the four years.

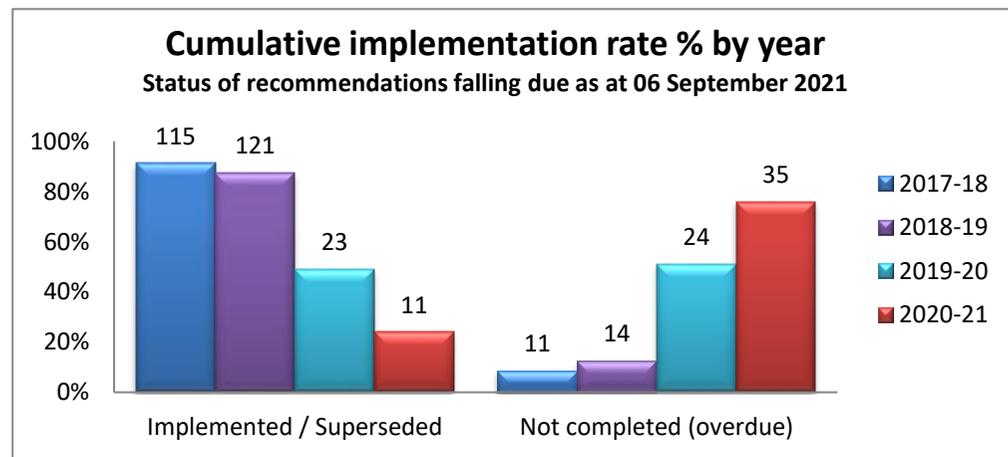
The implementation rate for previous recommendations has marginally decreased from 79% to 75% since the last report to the Committee. There are some longstanding recommendations from previous years that remain to be implemented.

The implementation status of each internal audit is summarised in the table overleaf.

***There were several audits for which the required update was not provided by the date of reporting, which are indicated on the summary. The implementation rate may be higher than 75%, however without management responses and supporting evidence, we cannot confirm this.***

*Please note that the table does not include audits where:*

- *All recommendations have been implemented*
- *Recommendations that will be followed up as part of another audit during the year (for example key financial systems)*
- *Recommendations are not yet due for implementation.*



## RECOMMENDATION IMPLEMENTATION RATES BY AUDIT

Audit Area	Total High & Medium recommendations due for implementation	Implemented		In progress at the follow up date		Awaiting update, revised date or evidence		% verified complete	Management Implementation dates
		H	M	H	M	H	M		
<b>Chief Executive's Department</b>									
2017-18 Land Charges	5	-	2	1	2	-	-	40%	<del>April 2019</del> <del>December 2019</del> Awaiting update
2018-19 Business Continuity Planning	7	-	2	-	3	-	2	40%	<del>July 2019</del> <del>October 2019</del> January 2021 Awaiting update
2019-20 S106 Agreements	3	-	-	-	-	-	3	0%	<del>January 2021</del> December 2021
2020-21 Building Control	3	-	-	-	-	-	3	0%	<del>June 2021</del> Awaiting update
2020-21 Community Infrastructure Levy	1	-	-	-	-	-	1	0%	<del>December 2020</del> Awaiting evidence
<b>Children's and Adults Department</b>									
2018-19 Commissioning	3	-	1	-	2	-	-	33%	<del>November 2019</del> <del>February 2020</del> Awaiting update
2019-20 Mental Health Services	3	-	-	-	-	2	1	0%	<del>September 2020</del> Evidence pending
2019-20 Mosaic (Learning Disabilities)	2	-	1	-	-	1	-	50%	<del>September 2020</del> Awaiting update
2019-20 Appointeeships	3	-	-	-	3	-	-	0%	<del>September 2020</del> Awaiting evidence

Audit Area	Total High & Medium recommendations due for implementation	Implemented		In progress at the follow up date		Awaiting update, revised date or evidence		% verified complete	Management Implementation dates
		H	M	H	M	H	M		
2020-21 Foster Carer Payments	4	-	-	-	-	-	4	0%	<del>December 2020</del> Awaiting update
2020-21 Payments to Children and Families	3	-	-	-	-	1	2	0%	<del>January 2024</del> Awaiting update
2020-21 Substance Misuse	5	-	-	-	-	1	4	Not due	October 2021
2020-21 Travel Assistance	1	-	-	-	-	-	1	Not due	September 2021
2020-21 Supported Living	3	-	-	-	-	1	2	Not due	September 2021
2020-21 Direct Payments	3	-	-	-	-	-	3	0%	<del>August 2021</del> Awaiting update
<b>Environment and Leisure Department</b>									
2019-20 Volunteer Management	5	-	-	-	2	-	3	0%	<del>June 2020</del> <del>January 2024</del> July 2021
2020-21 Enforcement	2	-	1	-	1	-	-	50%	<del>August 2020</del> <del>January 2024</del> July 2024 TBC
2020-21 Parks	2	-	-	-	2	-	-	0%	<del>April 2024</del> Awaiting evidence
2020-21 Climate Change	4	-	-	-	-	-	4	0%	November 2021
2020-21 Tree Management	2	-	1	-	-	1	-	50%	September 2021

Audit Area	Total High & Medium recommendations due for implementation	Implemented		In progress at the follow up date		Awaiting update, revised date or evidence		% verified complete	Management Implementation dates
		H	M	H	M	H	M		
<b>Finance and Governance Department</b>									
2019-20 Direct Debit Payments	2	-	-	-	-	1	1	0%	April 2020 June 2021
2019-20 Home Ownership - Garages	3	1	-	-	1	-	1	33%	April 2020 January 2024 November 2021
2020-21 Records Management	1	-	-	1	-	-	-	0%	March 2021 July 2021
2020-21 Corporate Credit Cards	4	-	-	-	-	-	4	0%	March 2021 Awaiting update
2020-21 Bankline	3	-	-	-	-	-	3	0%	April 2024 Awaiting update
<b>Housing and Modernisation Department</b>									
2017-18 IT - Disaster Recovery	5	1	2	2	-	-	-	60%	April 2019 June 2019 October 2019 May 2020 July 2024 November 2021
2017-18 IT - Network Security	8	1	3	1	3	-	-	50%	December 2017 October 2018 June 2019 September 2020 April 2024 October 2021
2018-19 Temporary Accommodation	8	2	5	-	1	-	-	88%	April 2019 June 2019

Audit Area	Total High & Medium recommendations due for implementation	Implemented		In progress at the follow up date		Awaiting update, revised date or evidence		% verified complete	Management Implementation dates
		H	M	H	M	H	M		
									<del>November 2020</del> <del>February 2021</del> September 2021
2019-20 Blue Badges	2	-	1	-	1	-	-	50%	<del>April 2020</del> September 2021
2019-20 Homelessness	5	2	3	-	-	-	-	100%	<del>May 2020</del>
2019-20 Materials	3	-	1	-	2	-	-	33%	<del>June 2020</del> <del>April 2021</del> <del>June 2021</del> October 2021
2020-21 Supported Accommodation	3	1	1	-	-	1	-	66%	<del>March 2021</del> October 2021
2020-21 Software Asset Management	4	-	-	-	-	-	4	Not due	March 2022
2020-21 Housing Applications and Allocations	2	-	-	-	-	-	2	Not due	September 2021
2020-21 Demolition Process	4	-	1	1	2	-	-	25%	<del>May 2021</del> September 2021
2020-21 New Home Programme	2	-	-	-	2	-	-	Not due	October 2021
2020-21 Housing Application and Allocations	2	-	-	-	2	-	-	Not due	September 2021
<b>Council Wide Reviews</b>									

Audit Area	Total High & Medium recommendations due for implementation	Implemented		In progress at the follow up date		Awaiting update, revised date or evidence		% verified complete	Management Implementation dates
		H	M	H	M	H	M		
2018-19 IR35	3	-	-	-	1	-	2	33%	<del>January 2021</del> Awaiting update

## RECOMMENDATIONS NOT YET IMPLEMENTED

The tables below show the latest position with regards to the recommendations not yet implemented, where this has been provided. It excludes recommendations that have not fallen due.

Recommendation and Priority Level	Manager Responsible & Due Date	Latest Implementation Status
<b>Environment and Leisure</b>		
<b>2020-21 Enforcement</b>		
<p>A policy on whether or not to prosecute residents for unpaid FPNs should be agreed and on a quarterly basis, a report of open and unpaid FPNs should be generated. These should be reviewed by the manager and team leader and a decision formally made whether to prosecute. If the decision is to not prosecute then a record should be made of the decision and the FPN formally closed down.</p> <p><b>Medium</b></p>	<p>Team Leader/Unit Manager</p> <p><del>1 August 2020 or once normal services resume</del></p> <p><del>January 2021</del></p> <p><del>June 2021</del></p> <p>TBC</p>	<p>We were advised by the Unit Manager that:</p> <p>The reports are generated on a quarterly basis and a traffic light system is set up and reviewed for consideration of prosecution. The decisions on FPNs are being contested/closed and are recorded and held centrally.</p> <p>The Enforcement policy for the whole of Regulatory Service is being reviewed.</p>

Recommendation and Priority Level	Manager Responsible & Due Date	Latest Implementation Status
<b>Finance and Governance Department</b>		
<b>2019-20 - Home Ownership - Garages</b>		
b) Waiting lists should be moved onto iWorld to centralise the waiting list procedure. This would minimise the risk of the waiting list being manipulated and would increase the transparency in the awarding of garages. Changes made would be reflected in an audit trail and will be identified if unauthorised. This will also ensure that priority of application as recorded in the Garage Lettings and Voids procedure <b>Medium</b>	Operations Manager  <del>November 2019</del>  <del>August 2020</del>  November 2021	We were advised by the Operations Manager that: Currently this is not implemented as they are waiting on availability of the Housing i-world team. This is due to be completed in November 2021
<b>2020-21 - Bankline</b>		
a) On an annual basis a verification should be completed to ensure that all current corporate users of Bankline remain employees of the Council and require their account and any account maintenance taken accordingly. b) On an annual basis Southwark Schools Finance should verify whether users are still employed at the school and that the accounts are still required and take appropriate action to close accounts. <b>Medium</b>	Divisional Accountant & Senior Finance Manager  <del>April 2021</del> September 2021	We were advised by the Divisional Accountant that this has been scheduled for completion for September 2021.
<b>2020-21 - Records Management</b>		
a) Management should conduct a thorough exercise covering all systems, locations and business areas in order to fully record the types of data being created and retained and to ensure all the Council's information assets were identified, with appropriate and specific information added to the asset registers. b) A central inventory record should be maintained and reviewed annually.	Information Governance Manager  <del>31 March 2021</del>  <del>June 2021</del> 31 October 2021	We were advised by the Corporate Information Governance Manager that: a) An equivalent to IG&SG has not yet been formed. This issue was raised by the IG Manager in the recent Information Governance audit (commenced by BDO 19/07/21). See action b) for progress by IG team. b) This is set up on the global drive and progress has been made with several teams with priority given to Adult Social Care (in line with DSP toolkit). Out of the 29 IARs identified across departments, 12

Recommendation and Priority Level	Manager Responsible & Due Date	Latest Implementation Status
<p>c) Mapping of all information held needs to be completed. Management should develop and draft a more detailed plan and timescale for cleansing and mapping existing information. Following this, we recommend that the achievement of the actions recorded is regularly reviewed, as part of team meetings within Corporate Services, to ensure they stay on track and remain relevant. Once a complete map of information is developed and relevant cleansing and migration has taken place, these should be reported to the SMT.</p> <p><b>High</b></p>		<p>were updated by end July, 17 are in progress. Expected completion date October 2021.</p> <p>c) The council does not currently have the resources to conduct this exercise, currently undertaking a migration to Outlook 365. Recommendation to be reviewed again by 31 October 2021.</p>
<b>Housing and Modernisation Department</b>		
<b>2018-19 Temporary Accommodation</b>		
<p>a) Management should ensure that a formal decision on the exemption from using the Contract Standing Orders is approved and recorded as well as the reasons for the exemption.</p> <p>b) They should also record any discussions, decisions and reasons for the frameworks to be used instead and any other ways they ensure value for money in the procurement of properties. Their meetings with the Legal team and Corporate Procurement should provide direction and advice on what is the best course of action around this issue.</p> <p><b>Medium</b></p>	<p>Business and Procurement Manager</p> <p><del>March 2019</del>  <del>July 2019</del>  <del>October 2019</del>  <del>June 2020</del>  <del>April 2021</del>  <del>September 2021</del>  October 2021</p>	<p>We were advised by the Head of Housing Solutions that: This is still ongoing, there have been recent discussions with BDO to explore an updated audit to examine the interim control measures. Formal decision to be explored in Autumn 2021.</p>
<b>2017-18 IT Disaster Recovery</b>		
<p>A risk assessment of the Council's ICT service must be performed in order to identify:  The threats to the continuity of the Council's ICT services  The mitigating actions that have been put in place and the residual risk to the Council.</p>	<p>Emergency Planning &amp; Resilience Manager</p> <p><del>September 2018</del>  <del>June 2020</del>  <del>July 2021</del>  November 2021</p>	<p>We were advised by the Emergency Planning Reliance Manager that:  The implementation of the Clearview business continuity package is now underway. Completion date has been pushed back to November this year  The departmental BC plans to include mitigation to ensure that critical services can be delivered during IT failure. BC lead officers from each department are now being supported to transfer data from existing plans</p>

Recommendation and Priority Level	Manager Responsible & Due Date	Latest Implementation Status
<p>A business impact assessment should be performed in order to determine the impact on the Council of the loss of its ICT services, including the financial, reputational, and regulatory impacts.</p> <p>The shared ICT service should review and revise its recovery arrangements based on the business impact and risk assessments</p> <p><b>High</b></p>		<p>onto new platform incorporating changes to organisational structure and lessons from the Covid 19 response.</p> <p>The planning arrangements for the recovery of the authority-shared service IT systems should be included within the IT shared service BC plans. The responsibility for the ongoing risk assessment to the shared service will be with the shared service manager.</p>
<b>2019-20 Materials</b>		
<p>Where actions are raised in relation to social value, these should be included within the agreed actions and monitored by the Strategic Core Group.</p> <p>The council should seek to confirm the number of apprenticeship and work experience slots and compare these against an expected standard. Evidence should also be received detailing that staff are paid the London Living on a quarterly basis to ensure the contractor is meeting its requirements under the Fairer Future Procurement strategy.</p> <p><b>Medium</b></p>	<p>SBS Business Service Manager</p> <p><del>April 2021</del></p> <p>TBC</p> <p>October 2021</p>	<p>We were advised by the Business Service Manager that:</p> <p>Conversations were held with Travis Perkins at the core group meeting in July, from this a commitment for Travis Perkins to provide unused work placements allocations has been agreed, to be used in 2021/22 in the local branch in Peckham.</p> <p>Travis Perkins are proposing a new placement scheme for work placements, which will be put in place in October 2021.</p> <p>We are in discussions with Travis Perkins regarding their Kick Start Apprentice Scheme.</p>
<b>2020-21 Supported Accommodation</b>		
<p>Across the wider temporary accommodation estate team:</p> <ol style="list-style-type: none"> <li>1. Documentation should be stored in individual documents on the information@work system.</li> <li>2. Management should complete quarterly spot checks of weekly health and safety checks and quarterly audits to ensure that they have been completed and signed off appropriately.</li> </ol>	<p><del>Director of Resident Services</del></p> <p><b>Head of Accommodation and Support</b></p> <p><del>December 2020</del></p> <p>October 2021</p>	<p>We were advised by Head of Accommodation and Support that:</p> <ol style="list-style-type: none"> <li>1. Documentation is being stored on the I@W systems. This has been incorporated in work plans for TA Team</li> <li>2. Management spot checks are ongoing. Health and Safety issues/checks are being completed and monitored, documents signed off and stored on I@W.</li> </ol> <p>Improvement is required to ensure sign off and I@W filing of the safety checks is done consistently each week - the H&amp;S checks are being</p>

Recommendation and Priority Level	Manager Responsible & Due Date	Latest Implementation Status
<p>3. It should be ensured that repairs are raised onto the system once identified in any health and safety checks.</p> <p><b>High</b></p>		<p>completed each week. This has slipped due to capacity whilst the team focused on handing over hostels to New homes team and leave.</p> <p>A revised date of implementation will be 6 September 2021; the team to arrange weekly meet to complete actions on sign off and I@W filing of the reports.</p> <p>To address issues with remote working sign off and leave absences - this has been incorporated in team meeting agenda, work plans and 121 meetings for TA Team, to ensure frequent monitoring</p> <p>3. Repairs are being raised following the H&amp;S checks - case management and complaints monitored to ensure service is effective. All but 2 Hostels have been handed over to New Homes which has reduced the number of weekly H&amp;S checks.</p>
<p>2020-21 Demolition Process</p>		
<p>The procedure document should be amended to reflect:</p> <p>The three different processes for issuing the different type of notices (initial, final and extension) are clear and distinguishable</p> <p>The requirements of the legislation governing the issuance of demolition notices.</p> <p><b>High</b></p>	<p>Sales &amp; Acquisitions Manager</p> <p><del>May 2021</del> September 2021</p>	<p>We were advised by the Sales &amp; Acquisitions Manager that:</p> <p>The procedures were amended to reflect the different processes for issuing the different types of notices for clarity.</p> <p>The requirements of the legislation governing the issuance of the demolition notices is pending the response from our Legal representatives which is now due on the 7<sup>th</sup> September 2021.</p>
<p>(i) All templates relating to demolition notices should be reviewed and updated to ensure they are compliant with the relevant legislation. The legal department should be consulted to ensure existing notices are valid.</p> <p>(ii) The agreed demolition templates and the process for their completion should be incorporated within the department's procedure documentation</p>	<p>Sales &amp; Acquisitions Manager</p> <p><del>May 2021</del> September 2021</p>	<p>We were advised by the Sales &amp; Acquisitions Manager that:</p> <p>(i) The Notices were sent to Legal for approval in April 2021. Despite numerous attempts for a response, we are now advised they will be returned on the 7 September 2021.</p> <p>(ii) On receipt the Notices will be added to the amended procedures as appendixes on receipt.</p> <p>(iii) The agreement was that all Notices would be approved by Legal prior to issuance and any changes incorporated into procedures. However, we</p>

Recommendation and Priority Level	Manager Responsible & Due Date	Latest Implementation Status
<p>(iii) An annual process review should be scheduled to ensure that relevant documentation and notices remain up to date.</p> <p><b>Medium</b></p>		<p>have included they will be reviewed every 2 years to ensure any amendments are captured. Notices are issued infrequently and are checked by Legal now prior to issuing. As such, an annual review is not required.</p>
<b>2020-21 New Home Programme</b>		
<p>(i) Introduce a monthly meeting that is minuted regarding the results of the Highlight Reports and more information should be provided that the reports have reconciled appropriately with the formal financial records of the Council and if not provide the relevant commentary.</p> <p>(ii) Introduce action logs for project manager's / site meetings to ensure that they are captured and the completion dates are entered.</p> <p>(iii) An up to date delegated authority for approval of purchase orders and invoices should be available for Project Managers.</p> <p>(iv) Project Managers to hold a payment tracker of all expenditure paid for the scheme.</p> <p>(v) All schemes produce an Optimix report showing whether they are still viable or not and these are updated on an annual basis and dated.</p> <p>(vi) Introduce a change control summary log for management review of all changes, carry out sample checking of these and ensure that staff use the same standard items for any Covid-19 changes.</p> <p><b>Medium</b></p>	<p>Delivery New Homes Manager</p> <p><del>April 2021</del></p> <p>October 2021</p>	<p>We were advised by the Delivery New Homes Manager that:</p> <p>(i) Notes are taken at monthly review meetings attended by the Programme Office, relevant Development Manager and Head of Development. This will be enhanced to provide more detail in place by the end of October 2021.</p> <p>(ii) The responsibility for minuting and noting actions at site meeting is the Council's Employers agent. Will ensure trackers in place to ensure action are noted and completed. In place by end of October 2021.</p> <p>(iii) This is included in the Council's scheme of delegation and has been updated to include new permanent staff.</p> <p>(iv) The payment trackers will be added to all Optimix cashflows by the end of October 2021</p> <p>(v) The Optimix viabilities are already updated at key milestones (e.g. pre planning, contract award, completion) and reported to the Delivery Programme Board. The viabilities should also be updated when schemes are on site and a Gateway 3 is required due to increased costs. Will introduce this by end of Oct. Also to note, schemes that are 100% social rent are not viable in the true sense.</p> <p>(vi) To be introduced by end of October. Change control forms and approval currently stored by individual scheme.</p>
<b>2020-21 Housing Application and Allocations</b>		

Recommendation and Priority Level	Manager Responsible & Due Date	Latest Implementation Status
<p>(i) Staff should be reminded that all supporting documentation is required to be stored onto the EDMS.</p> <p>(ii) Spot checks should be conducted (we recommend annually) for a sample of cases to ensure compliance. These checks should be recorded and stored electronically.</p> <p><b>Medium</b></p>	<p>Acting Head of Housing Solutions</p> <p><del>June 2021</del> <b>Completed</b></p> <p>September 2021</p>	<p>We were advised that:</p> <p>(i) This has now been completed.</p> <p>(ii) The spot checks are due to take place in September 2021.</p>
<b>Children and Adult's Services Department</b>		
<b>2020-21 Substance Misuse</b>		
<p>(i) The funding for care packages should be authorised in accordance with the hierarchy stated in the Scheme of Management. These limits require that funding requests in excess of £250 and below £800 should be authorised by the Head of Service or Service manager. An appropriate control should be put in place to ensure that payments are checked to ensure they are correctly authorised before funds are released.</p> <p>(ii) If required, the Team managers and Deputy limits for authorising payments should be reviewed and appropriate authority provided in the Scheme of Management.</p> <p><b>High</b></p>	<p>Team Manager</p> <p><del>June 2021</del> September 2021</p>	<p>We were advised by the Team Manager that:</p> <p>(i) A mosaic change request is to be made and will be actioned in Q3</p> <p>(ii) N/A - The scheme of management has recently been reviewed and the levels set remain as previously stated.</p>
<b>2019-20 Appointeeships</b>		
<p>1) Client Finance review the 72 hour appointeeship referral processing target and consider its achievability to ensure it acts as a motivator to staff.</p>	<p>1) Service Development Manager</p> <p><del>July 2020</del> TBC</p>	<p>We were advised by the Service Manager that:</p> <p>The target of 72 hours turnaround has been included within the Service Development Personal Budget and Client Finance service plan for 2021/22.</p> <p>The Mosaic business analysts are in the process of building a performance report to monitor compliance with the 72 hour target.</p>

# APPENDIX 1

## OPINION SIGNIFICANCE DEFINITION

Level of Assurance	Design Opinion	Findings from review	Effectiveness Opinion	Findings from review
<b>Substantial</b> 	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.
<b>Moderate</b> 	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.
<b>Limited</b> 	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.
<b>No</b> 	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.

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# **INTERNAL AUDIT AND ANTI-FRAUD PROGRESS REPORT**

London Borough of Southwark

*For presentation to the Audit, Governance and Standards Committee*

*20 September 2021*

## **APPENDIX 2**

### **INTERNAL AUDIT SUMMARY REPORT - SCHOOLS BUDGETS AND FINANCIAL STRATEGY REVIEWS 2021-22**

**AUGUST 2021**

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# 1. BACKGROUND AND SCOPE

This report summarises the results of the six audits of schools' budgets and financial strategy undertaken from April to July 2021.

All maintained schools within the London Borough of Southwark are usually subject to an internal audit review at least every four years, covering key processes and controls across a range of governance and financial systems. However, due to the Covid restrictions this type of audit work was paused in the period April 2020 to April 2021. Instead, the Council took the opportunity to change the focus of the audits.

Due to the number of schools facing financial difficulties, which present a significant risk to the school and local authority, for a temporary period, BDO LLP as the Council's internal auditors, were asked to refocus attention onto the schools budget and school financial strategy.

The purpose of these audits was to review the adequacy and effectiveness of each school's financial management strategy and controls, and the extent to which the expectations set out in the Schools Financial Value Standards for School Strategy and Setting the Annual Budget were being met.

We analysed evidence related to the schools' budget and planning to ensure the Council's Education service can assist the school in both developing and implementing suitable management plans, in a timely manner, to ensure sound financial planning.

The internal audit programme assessed the design and operational effectiveness of the controls at each school to mitigate the key risks in the areas below, which are directly linked to the School Financial Value Standards (Appendix 1).

<ul style="list-style-type: none"> <li>• School's financial strategy</li> <li>• Financial strategy linked to raising standards and attainment</li> <li>• Budget setting process</li> <li>• Budget monitoring procedures</li> <li>• Pupil projections</li> </ul>	<ul style="list-style-type: none"> <li>• Deficit recovery plan</li> <li>• Cash flow</li> <li>• Governing Body engagement</li> <li>• Recasting</li> <li>• End of year balance</li> </ul>
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Our audit approach consisted of conducting interviews with Head Teachers, School Business Managers and Governing Body Chairs to establish the controls in operation for each of our areas of audit work.

- Review of documentary evidence to confirm that the controls were designed as described.
- Evaluation of the controls to provide assurance that they adequately addressed the identified risks.
- Testing to ensure that defined financial processes are operating effectively in practice.

With social distancing measures in place due to the Covid-19 pandemic, this review was undertaken remotely with communications via email and video conferencing.

Our work complies with Public Sector Internal Audit Standards.

## 2. SCHOOLS AUDITED FROM APRIL TO JULY 2021

The following schools were audited in the period 1 April 2021 to 31 July 2021.

<u>SCHOOL NAME</u>	<u>BACKGROUND INFORMATION</u>
<ul style="list-style-type: none"> <li>Cobourg Primary</li> </ul>	<ul style="list-style-type: none"> <li>Currently has a £126,285 deficit which was carried forward into the 2021-22 financial year.</li> <li>Recently gone through a reorganisation process which has resulted in reduced staff numbers and moved from a two form to a one form entry.</li> </ul>
<ul style="list-style-type: none"> <li>St Joseph's Infant School</li> </ul>	<ul style="list-style-type: none"> <li>Forms part of a federation in conjunction with St Joseph's Junior School.</li> <li>Has a surplus budget of £102,619.41 which was carried forward into the 2021-22 financial year.</li> <li>Implemented staff restructuring to reduce the size of the senior leadership and therefore free up resources.</li> </ul>
<ul style="list-style-type: none"> <li>Comber Grove Primary</li> </ul>	<ul style="list-style-type: none"> <li>Currently has a £144,674 deficit which was carried forward into the 2021-22 financial year.</li> <li>Initiating a restructuring process in September 2021 which is imperative to the school in eliminating the deficit within the 2022-23 financial year.</li> </ul>
<ul style="list-style-type: none"> <li>St Francesca Cabrini Primary</li> </ul>	<ul style="list-style-type: none"> <li>Currently has a £26,883 deficit which was carried forward into the 2021-22 financial year.</li> <li>Due to limited finances the school does not have a Business Manager. Budget processes are overseen operationally by the Clerk to the Governors, who is supported by a Finance Assistant.</li> <li>Will officially become a one form school in September 2021.</li> </ul>
<ul style="list-style-type: none"> <li>Dog Kennel Hill Primary</li> </ul>	<ul style="list-style-type: none"> <li>Dog Kennel Hill is part of the River Hill Federation which comprises of two Southwark schools, the other being Rotherhithe Primary.</li> <li>Currently has an overall deficit of £567,545 which was carried forward into the 2021-22 financial year.</li> </ul>

	<ul style="list-style-type: none"> <li>School was without a full time bursar for 15 months. A permanent officer has now been recruited</li> </ul>
<ul style="list-style-type: none"> <li>Rotherhithe Primary</li> </ul>	<ul style="list-style-type: none"> <li>Rotherhithe Primary is part of the River Hill Federation which comprises of two Southwark schools, the other being Dog Kennel Hill Primary.</li> <li>Currently has a deficit of £397,556 which has been carried forward into the 2021-22 financial year.</li> <li>School was without a full time bursar for 15 months. A permanent officer has now been recruited</li> </ul>

These six schools formed part of the original audit plan for 2021-22. They were selected at the request of the director of education due to emergent risks and concerns about financial management and controls.

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### 3. SUMMARY OF RECOMMENDATIONS AND LEVELS OF ASSURANCES PROVIDED

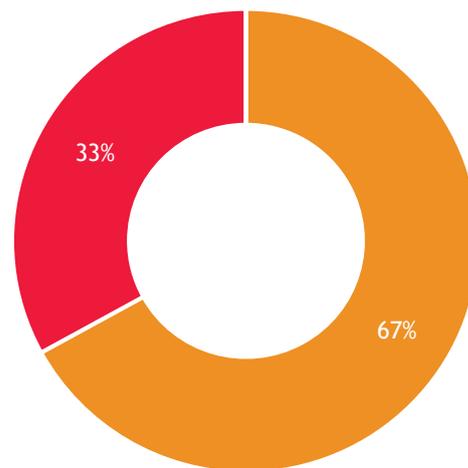
We provide overall opinions to each school on the design of the controls in place and the operational effectiveness of those controls.

We raised a total of 28 recommendations across the six schools audited.

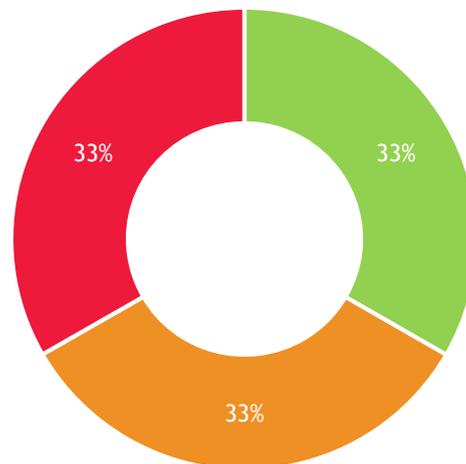
The charts below summarise our assurance opinions and recommendations.

See appendix 3 for the definitions.

#### Assurance Opinions - Design of the Control

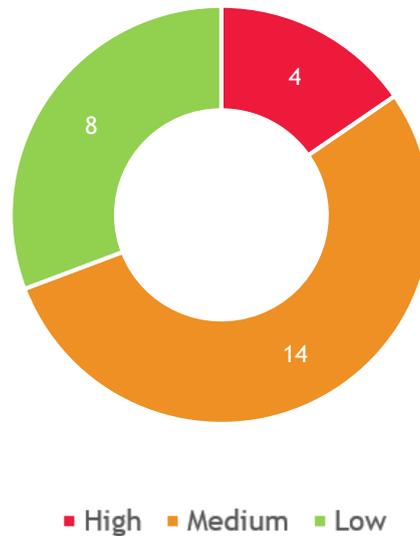


#### Assurance Opinions - Operational Effectiveness



■ Substantial ■ Moderate ■ Limited ■ No

## Recommendations by Category



## Summary of Findings by Risk Area

The main areas where schools do not have strong controls or do not comply with the council's expectations are deficit recovery planning, budget setting and monitoring, making up 21%, 14% and 14% of our recommendations overall.

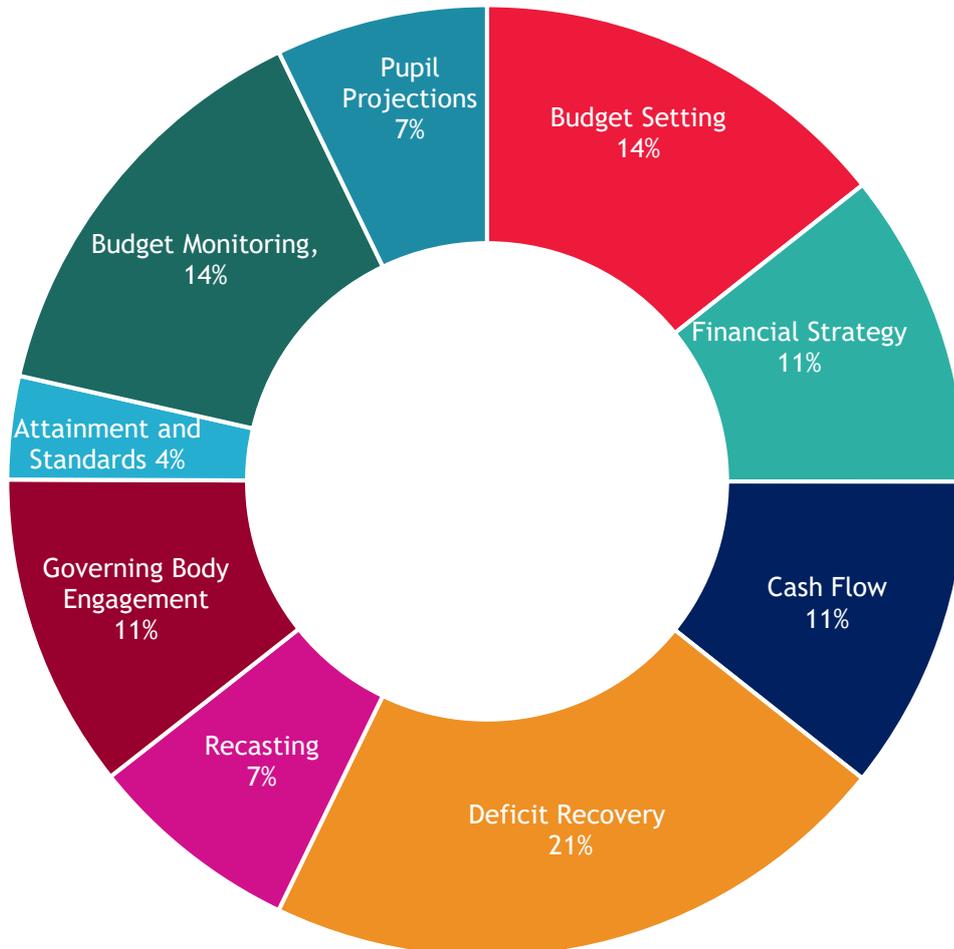
Controls in the areas of cash flow, governing body engagement and financial strategy areas also require improvement to effectively manage the risks, each making up contributing 11% of total recommendations.

We are conducting a separate review regarding the Council's departmental response to schools in financial difficulties. This will directly address the findings and issues raised in the six reports and determine the appropriate processes by which the Council can support these schools.

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### Summary of recommendations categorised by Risk Percentages

The chart below summarises the proportion of recommendations made across the risk areas reviewed.



## 4. COMMON THEMES ARISING

The table below summarises the key findings arising from our reviews, along with the total number of each category of recommendation made in each area.

Area	Recommendations and significance			Summary of Key Findings
	H	M	L	
Deficit Recovery	-	4	2	<ul style="list-style-type: none"> <li>There is no projected date/ timeline for the school's elimination of the overarching deficit</li> <li>School restructuring plan is a key part of the overall strategy projection and deficit recovery plan. If restructuring plan is delayed projections will materially alter and the deficit reduction will be delayed, causing additional financial hardship on the school.</li> </ul>
Budget Setting	2	2	-	<ul style="list-style-type: none"> <li>Guidance outlining key steps on how the budget should be set is not documented</li> </ul>
Budgeting Monitoring	2	2	-	<ul style="list-style-type: none"> <li>Budget monitoring processes are not documented. If key financial staff were to be absent there is a risk that these processes would not continue to be managed in an effective manner resulting in unreliable financial data and large variances.</li> </ul>
Cash Flow	-	2	1	<ul style="list-style-type: none"> <li>Cash reserves are low and will remain a concern while schools are in a financial deficit. However, the cash flow forecast is not presented and discussed as a standing agenda item at Governing Body meetings.</li> </ul>
Governing Body	-	-	3	<ul style="list-style-type: none"> <li>Variations and financial issues are discussed at the Governing Body and Resources Committee, however, there is not a consistent defined follow up process stating how these issues have been addressed or steps taken to rectify them.</li> </ul>
Financial Strategy	-	2	1	<ul style="list-style-type: none"> <li>Head teachers expressed concern that when they were not provided any standardised financial training. This resulted in them requiring a few months before they were fully proficient in overseeing the school's financial processes.</li> </ul>
Recasting	-	2	-	<ul style="list-style-type: none"> <li>There was no evidence of recasting in the financial reports, resulting in variances and unexpected end of year outturns.</li> </ul>
Financial Strategy links to Attainment	-	-	1	<ul style="list-style-type: none"> <li>The key drive of the financial strategy is reducing the deficit and school costs. While Curriculum remains a priority, these links should be highlighted going forward to ensure they remain consistently visible.</li> </ul>
Pupil Projections	-	-	2	<ul style="list-style-type: none"> <li>Financial forecast reports did not contain a breakdown of the estimated pupil intake in upcoming years.</li> </ul>
<b>TOTAL</b>	4	14	10	<ul style="list-style-type: none"> <li>A total of 28 recommendations were raised across six schools audited</li> </ul>

## 5. FORWARD LOOK: INTERNAL AUDIT SOUTHWARK SCHOOLS PROGRAMME

1. Review of Southwark's departmental response to schools in financial difficulty will commence in August 2021. This will incorporate follow up to some of the common issues raised during the recent financial school reviews.
2. Southwark schools compliance audits will resume in the forthcoming winter term (pending any unexpected covid restrictions).
3. Additional budgets and financial strategy reviews will be discussed with Southwark Council for inclusion on this year's internal audit programme.

**Appendix 1 School Financial Value Standards Risk areas and key lines of enquiry conducted during testing**

School Financial Value Standards Risk areas	Key lines of enquiry conducted during testing
School's Financial Strategy	<ul style="list-style-type: none"> <li>• Confirm that the school has a realistic, sustainable and flexible financial strategy in place for at least the next 3 years, based on realistic assumptions about future funding, pupil numbers and pressures</li> </ul>
Financial Strategy linked to raising standards and attainment	<ul style="list-style-type: none"> <li>• Verify that schools plan their staffing based on multi-year projections of curriculum needs</li> <li>• Determine whether senior educational leads and school business professionals are involved in the discussions related to curriculum and the strategy</li> </ul>
Budget setting process	<ul style="list-style-type: none"> <li>• Confirm the school has set a well-informed and balanced budget</li> <li>• Determine whether the budget setting process allowed sufficient time for the governing body to scrutinize and challenge the information provided</li> <li>• Review documented procedures for setting budgets</li> </ul>
Budget Monitoring procedures	<ul style="list-style-type: none"> <li>• Confirm that the budget is monitored on a consistent basis</li> <li>• Review budget monitoring financial reports for the last two financial years. Confirm reports are logical and complete</li> <li>• For any variances within financial reports, confirm adequate narrative provided</li> <li>• Determine whether end of year outturn in line with budget projections</li> </ul>
Deficit Recovery Plan	<ul style="list-style-type: none"> <li>• Confirm that a Deficit Recovery Plan in place</li> <li>• Verify that the deficit recovery plan is being monitored effectively</li> <li>• If a deficit is in present, enquire whether restructuring is being considered as a cost reduction method</li> <li>• Confirm that the school is in liaison with Local Authority regarding their Deficit</li> </ul>
Governing Body Engagement	<ul style="list-style-type: none"> <li>• Determine whether the budget setting process allows sufficient time for the governing body to scrutinize and challenge the information provided</li> <li>• Determine whether there is evidence of governing body engagement and challenge</li> </ul>

School Financial Value Standards Risk areas	Key lines of enquiry conducted during testing
	<p>to financial issues</p> <ul style="list-style-type: none"> <li>• Confirm that the governing body should sign off budgetary and financial plans.</li> <li>• Verify that the governing body is alerted to significant budget variations in a timely manner</li> </ul>
Pupil Projections	<ul style="list-style-type: none"> <li>• Confirm that the school is realistic in its pupil number projections based on relevant data.</li> <li>• Verify that this information is reflected in financial documentation</li> </ul>
Cash Flow	<ul style="list-style-type: none"> <li>• Determine whether school's cash flow is monitored consistently throughout the year</li> <li>• Verify that low cash reserves are consistently discussed with the Governing Body and steps to manage issues are prioritized</li> </ul>
Recasting	<ul style="list-style-type: none"> <li>• Determine whether the school will be able to move quickly to recast its budget if the projections and the reality are materially different</li> </ul>
End of Year Balance	<ul style="list-style-type: none"> <li>• Confirm balances are at a reasonable level and the school have a clear plan for using the money it plans to hold in balance at the end of each year</li> </ul>

**APPENDIX 2 - School assurance ratings against the School Financial Value Standards (see appendix 3 for definitions)**

SCHOOL FINANCIAL VALUE STANDARD PERFORMANCE SUMMARY	COBOURG PRIMARY	DOG KENNEL HILL PRIMARY	ROTHERHITHE PRIMARY	COMBER GROVE PRIMARY	ST FRANCESCA PRIMARY SCHOOL	ST JOSEPH'S CATHOLIC INFANTS
Does the school have a realistic, sustainable and flexible financial strategy in place for at least the next 3 years, based on realistic assumptions about future funding, pupil numbers and pressures?	Green	Amber	Amber	Green	Green	Green
Is the financial strategy integrated with the school's strategy for raising standards and attainment?	Green	Amber	Amber	Green	Green	Green
Does the school set a well-informed and balanced budget each year (with an agreed and timed plan for eliminating any deficit)?	Amber	Red	Red	Amber	Amber	Green
Does the budget setting process allow sufficient time for the governing body to scrutinise and challenge the information provided?	Green	Amber	Amber	Green	Green	Green
Is the school realistic in its pupil number projections and can it move quickly to recast the budget if the projections and the reality are materially different?	Green	Amber	Amber	Green	Green	Green
Is end year outturn in line with budget projections, or if not, is the governing body alerted to significant variations in a timely manner, and do such variations result from explicitly planned changes or from genuinely unforeseeable circumstances?	Green	Red	Red	Amber	Green	Green
Are balances at a reasonable level and does the school have a clear plan for using the money it plans to hold in balance at the end of each year?	No closing Balance due to deficit	Green				

## APPENDIX 3 - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
<b>Substantial</b>	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.
<b>Moderate</b>	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.
<b>Limited</b>	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.
<b>No</b>	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				
<b>High</b>	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.			
<b>Medium</b>	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.			
<b>Low</b>	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.			

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<b>Item No.</b> 8.	<b>Classification:</b> Open	<b>Date:</b> 20 September 2021	<b>Meeting Name:</b> Audit, Governance and Standards Committee
<b>Report title:</b>		Covid-19 Pandemic: Update September 2021	
<b>Ward(s) or groups affected:</b>		All	
<b>From:</b>		Strategic Director of Finance and Governance	

## RECOMMENDATION

1. That the audit, governance and standards committee note the impact of the Covid-19 pandemic on spending and income and the government grants to support the council's financial losses in 2021-22.

## BACKGROUND INFORMATION

2. Following the September 2020 report on the financial impact of the Covid-19 pandemic, the committee requested regular updates on the council's increased costs and income losses alongside updates on any additional government funding.
3. This report details the Covid-19 funding, expected additional costs and income losses in 2021-22.

## GOVERNMENT GRANTS

4. The government have announced one tranche of general support funding for 2021-22. Southwark's allocation is £11.4m, which was designated to support quarter 1 (April to June 2021). The Ministry for Housing, Communities and Local Government (MHCLG) return in July 2021 has continued to request data for quarter 2 (July to September 2021), however funding for the period is yet to be announced and there potentially may be none. It is expected that councils will receive further general or specific grants to support any additional costs or income losses as a result of the pandemic in quarter 2 (July to September 2021) and beyond.
5. Appendix A has been updated to include additional grants for 2021-22. The only relevant update for this report is the inclusion of the welcome back fund of £286k and an increase of £0.1m to the adult social care infection fund.
6. The council have submitted a claim for income losses in Sales, Fees and Charges (SFC) in 2021-22. Based on a template provided by MHCLG, the claim is expected to amount to £2.2m of the total SFC losses, from April to June 2021, which totalled £3.8m. This is slightly lower than the previous claim expectation of £2.4m. This reduction is due to the actual total income losses for quarter 1 being lower than predicted. This claim reimburses the council for 58% of SFC losses for quarter 1, far lower than the headline figure of 75%.

## FUTURE CONSIDERATIONS

7. It is important to consider the potential impact that COVID-19 will continue to have on both the council and the wider community in the future. A key area for consideration

would be the recovery of lost income. Funding for losses in sales, fees and charges has averaged only 58% to date and there has been no reimbursement for commercial or rental income losses. There is yet to be any indication of funding beyond June. In addition, there is council tax and business rate debt which has accumulated during the pandemic for which grant funding has only partially covered losses. Again, the government have yet to announce any further support for future losses. Local businesses continue to be heavily impacted by the pandemic and this is likely to continue especially with the easing of Covid support initiatives, such as the current business rates relief. The council will also be focused on ensuring the payment of business rate and council tax debts by those who can afford to pay.

8. Socioeconomic impact must also be considered, particularly regarding the adverse welfare effect that may occur as, for example, support through universal credit reduces and furlough ends. It is likely that demand for council services for the most vulnerable will increase as the rates of unemployment rise, with 9.4%<sup>1</sup> of all economically active London residents expected to be unemployed by December 2021, predominantly due to the ending of Covid support schemes.
9. Beyond 2021-22, the council will have to continue to deal with the repercussions of the pandemic, not least, the increase in bureaucracy relating to passporting funds to businesses and the increase in the number of specific (and often relatively small) grants awarded for which there are complex and bureaucratic guidelines. This has impacted on the council's capacity and in the longer term, consideration should be given to how this can be managed and mitigated, especially as further funding is uncertain.

#### **EXPECTED INCREASES IN SPENDING AND LOSSES IN INCOME DUE TO THE COVID-19 PANDEMIC- QUARTER 1 ACTUAL AND QUARTER 2 ESTIMATED OUTTURN 2021-22**

10. Table 1 shows details of the MHCLG returns for both quarter 1 and 2, reflecting that additional costs are expected to increase into quarter 2. This increase is largely driven by an increase in expected costs for education and environment, planning and public health, both of which are slightly offset by reductions in adults and children's services.
11. The actual additional expenditure for quarter 1 of 2021-22 is £1.2m lower than predicted previously, now sitting at £11.0m. This is due to corporate costs around finance and IT services not materialising during the quarter and Capita costs being £50k lower than initially expected. The estimated expenditure increase for quarter 2 is £600k lower than previously expected, now at £11.9m. This is due to reductions to expected quarter 2 additional costs in covid compliance, cemetery and mortuary costs, all of which would be expected to reduce as the impact of the pandemic subsides.
12. The expected additional costs for the financial year 2021-22 now stand at £40.5m, £1.9m less than previously anticipated. There is an expected decline in additional adult social care costs of £1.0m, mainly driven by lower additional market demand, together with an expectation that schemes (e.g. the Southwark Pioneer scheme) that were re-purposed in 2020-21 will no longer be needed.

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<sup>1</sup> <https://www.londoncouncils.gov.uk/press-release/19-march-2021/almost-%E2%80%98one-ten%E2%80%99-londoners-be-unemployed-december>

Table 1: Reported Estimated Additional Costs for the Financial Year 2021-22 due to Covid-19

Service area	Quarter 1 2021-22 Actuals £m	Quarter 2 2021-22 Estimate £m	FY 2021-22 Estimate £m	Comments
Adult Social Care (ASC)	3.2	1.6	5.9	Gradual reduction in all areas of expected additional costs from Q1 to Q2. Main driver of pressure due to supporting the market which covers a higher than normal inflationary increase to some providers.
Children's Services*	0.5	0.3	0.9	Additional expected costs driven mainly by costs associated with care leavers.
Education Services	0.8	1.5	2.7	Increase from Q1 to Q2 for additional professional and assessment materials ahead of the new academic year.
Highways & Transport	0.0	0.0	0.0	
Housing	3.6	3.3	13.3	Expected reduction in rough sleeping additional costs from Q1 to Q2.
Environment, Planning & Public Health	1.3	2.5	8.1	Increased expectations for Q2 for testing and contact tracing, from increased use of track and trace as lockdown measures ease from Q1 to Q2. Other increase due to the use of the Substance Misuse grant expected to be taking place in Q2.
Culture	0.5	0.6	2.1	Costs related to sports, leisure and communities facilities and other culture and related areas
Corporate	0.2	0.6	1.5	Pressures predominantly relating to IT rollout to support remote working and increases in contract costs for work relating to additional benefit claims.
Other	0.9	1.5	6.0	Main drivers are the support through the Southwark Emergency Support Service (SESS) and potential contractor claims for cancelled works due to Covid-19.
<b>Expenditure Increases</b>	<b>11.0</b>	<b>11.9</b>	<b>40.5</b>	

\* Rounding of figures

13. Table 2 shows the actual and estimated income losses for quarters 1 and 2 respectively as reflected in the July MHCLG return. This shows total actual estimated income losses of £5.1m for quarter 1, with SFC income losses accounting for £4.0m of this, both of which match previous estimations. Additional costs for quarter 2 are £1.7m higher than previous estimations due to recalculations of business rate and council tax receipt losses. Government has still not committed to reimbursing commercial income losses, rent losses and housing revenue account (HRA) income losses.
14. Table 2 outlines that the total income losses expected for the financial year 2021-22 is £18.7m, which is a decrease of £0.8m from the last return. This variance is mainly due to a reduction in SFC losses of £1.1m compared to the last completed MHCLG return, predominantly driven by parking services showing improved performance, forming a new expectation of showing minimal income losses across the full year. This reduction is offset by an increase in the expected collection losses for the full year.

Table 2: Reported Estimated Additional Income Losses for the Financial Year 2021-22 due to Covid-19

Income source	Quarter 1 2021-22 Actual £m	Quarter 2 2021-22 Estimation £m	FY 2021-22 Estimation £m	Notes
Business rates	-0.4	1.2	2.9	Southwark's share of business rates losses
Council Tax*	0.7	2.2	2.0	Southwark's share of council tax receipt losses
<b>Collection Losses</b>	<b>0.3</b>	<b>3.4</b>	<b>4.9</b>	
Commercial Income	0.1	0.1	0.3	Losses on commercial property
Other income	0.7	0.8	3.2	Losses in housing rents
<b>Other Income Losses</b>	<b>0.8</b>	<b>0.9</b>	<b>3.5</b>	
Highways & Transport*	0.5	0.0	0.1	Losses in off-street and on-street parking
Cultural	1.0	0.8	3.2	Losses in recreation and sports losses and other losses from youth services and libraries
Planning & Development	0.4	0.2	0.7	Reduction in income projection in statutory and non-statutory planning fees
Other sales, fees and charges, income losses	2.1	1.8	6.3	Includes income losses in regulatory and enforcement services, education and adult social care
<b>Sales, Fees and Charges Losses</b>	<b>4.0</b>	<b>2.8</b>	<b>10.3</b>	
<b>Total income losses</b>	<b>5.1</b>	<b>7.1</b>	<b>18.7</b>	

\*Rounding of figures

15. Housing was identified by councils as one of the main areas where emergency funding is being directed. Although the HRA does not directly influence the general fund, there are substantial income losses and discussions continue as to how these might be recovered. The actual income loss and increased expenditure for the council's HRA for quarter 1 of 2021-22 is £2.0m. The estimated loss for quarter 2 is lower, standing at £1.3m.
16. Table 3 updates the expected shortfall position across the year. The council's shortfall between income losses and additional expenditure and government grants to date for quarter 1 is a 'gain' of £5.2m, which suggests the council was fully funded. This 'gain' is £0.8m greater than what had been predicted in the previous MHCLG return, due to the actual expenditure increases and SFC losses being £1.2m less than predicted, offset by the clinical commissioning group funding which was expected to be received during quarter 1 now being expected in quarter 2.
17. The shortfall in quarter 2, estimated at £15.0m, is due mainly to the lack of government funding targeted beyond June. This reflects the government's initial expectations of

lockdown easing and the effects of the pandemic only continuing to the end of quarter 1, which now appear to have been incorrect. Expected additional costs and losses increase between quarter 1 and quarter 2, suggesting that the council expectation is that the impact of the pandemic will continue and marginally increase until September 2021. It is hoped and expected that the government will provide grant funding beyond June, given that it is clear that losses will continue throughout the year.

18. The expected shortfall for 2021-22 as a whole is now £2.7m less than previously assumed, at £28.9m. Estimated grant funding has stayed fairly consistent from the previous return at £30.3m. The increase offered by the inclusion of the welcome back fund and additional funding for the adult social care infection fund was offset by a reduction in the SFC claim as the actual claim value is now based entirely on actual data, rather than estimates. The changes in the current estimate of expenditure and income losses have been explained in paragraphs 12 and 14 of this report.

Table 3: Estimated Potential Funding Shortfall for the Financial Year 2021-22 due to Covid-19

Current Estimates	Quarter 1 2021-22 Actual £m	Quarter 2 2021-22 Estimate £m	FY 2021-22 Estimate £m	Notes
Expenditure increases	11.0	11.9	40.5	Q1 predominantly driven by housing and adult social care pressures. Q2 driven by housing and public health.
Business rates and council tax losses	0.3	3.5	4.9	
Sales, Fees and Charges losses	4.0	2.8	10.3	Over 50% of Q1 losses driven by 'other', primarily around central services to public. Central services is the main driver for Q2 also but at a lower proportion.
Other Income losses- Commercial, housing rents	0.8	0.9	3.5	
<b>Total current estimate of expenditure and income losses</b>	<b>16.1</b>	<b>19.1</b>	<b>59.2</b>	
General Grant funding for expenditure losses. 2021 Tranche	-11.4		-11.4	
Sales, Fees and Charges	-2.2		-2.2	
Contain Management and Outbreak Grant 21-22	-3.0		-3.0	
Rough sleepers initiative*	-0.8	-0.8	-3.2	
Housing benefit/universal credit and tenant contributions	-1.7	-1.7	-6.5	
Adult Social Care Infection Fund	-0.5	-0.1	-0.6	Additional £0.1m announced for Q2.
Clinical Commissioning Group Funding		-0.4	-0.4	This was not received in Q1 and is now expected to be seen in Q2 instead.
COVID Winter Grant Scheme	-0.4		-0.4	
Clinically Extremely Vulnerable Funding	-0.7		-0.7	
COVID Local Support Scheme 21-22*	-0.2	-1.0	-1.2	
New Burdens Grant	-0.4		-0.4	
Welcome Back Fund		-0.1	-0.3	Full year expectation of £286k and have allocated across the year.
<b>Estimated additional grant funding for 2020-21</b>	<b>-21.3</b>	<b>-4.1</b>	<b>-30.3</b>	As can be seen, the majority of funding streams are for quarter 1. Very few are expected to continue throughout the year.
<b>Estimated Potential Funding Shortfall</b>	<b>-5.2</b>	<b>15.0</b>	<b>28.9</b>	

\* Rounding of figures

**BACKGROUND DOCUMENTS**

<b>Background Papers</b>	<b>Held At</b>	<b>Contact</b>
Financial and Information Governance files	Finance and Governance, Second Floor, Tooley Street	Geraldine Chadwick

**APPENDICES**

<b>No.</b>	<b>Title</b>
Appendix A	Covid-19 Grants (as at 31 July 2021)

**AUDIT TRAIL**

<b>Lead Officer</b>	Duncan Whitfield, Strategic Director of Finance and Governance	
<b>Report Author</b>	Geraldine Chadwick, Interim Technical Accountant	
<b>Version</b>	Final	
<b>Dated</b>	7 September 2021	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Director of Law and Governance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
<b>Date final report sent to Constitutional Team</b>		7 September 2021

<b>Covid-19 Grants (as at 31 July 2021)</b>				
<b>Grant / Commitment</b>	<b>Date of Notice</b>	<b>National Allocation £m</b>	<b>Southwark Allocation £m</b>	<b>Purpose</b>
<b>General support for local authorities</b>				
General support for local authorities for COVID-19 pressures - First Tranche 2021-22	17/12/20	1,550	11.449	Primarily to support social care, homeless and rough sleepers and to meet pressures across other services.
<b>Support for specific services</b>				
New Burdens Grant	12/05/21		0.353	The purpose of the grant is to provide support to local authorities for additional administrative burdens.
Rough Sleeping Initiative 2021-22	15/05/21	203	3.271	Councils will be given funding to help people off the streets - a 81% increase from the £112m provided last year.
Covid Local Support Scheme	21/05/2021	40.0	1.308	Provide support to children and households who are experiencing, or at risk of experiencing, poverty, where they are impacted by the ongoing public health emergency and where alternative sources of assistance may be unavailable. Covers period to September 2021.
Contain Outbreak Management Funding	18/03/2021	400	2.954	Payment for 2021-22 (for testing, support for compliance and enforcement).
Single Tier and County Councils - Support for Clinically Extremely Vulnerable People	01/06/2021		0.678	Support for the Clinically Extremely Vulnerable
Adult Social Care Infection Fund	08/04/2021	250	0.610	Support ASC providers to reduce COVID transmission within and between care settings and to conduct additional rapid testing of staff and visitors.

**Covid-19 Grants (as at 31 July 2021)**

Grant / Commitment	Date of Notice	National Allocation £m	Southwark Allocation £m	Purpose
COVID Winter Grant Scheme	21/05/2021	59.1	0.386	Support those most in need across England with the cost of food and energy bills and other essentials. This is an extension of the COVID Winter Grant Scheme to cover 1 <sup>st</sup> April 2021 to 16 <sup>th</sup> April 2021.
Welcome Back Fund	20/03/2021	56.0	0.286	£56 million Welcome Back Fund for councils to support the return of shoppers and tourists to high streets and seaside towns

<b>Item No.</b> 9.	<b>Classification:</b> Open	<b>Date:</b> 20 September 2021	<b>Meeting Name:</b> Audit, Governance and Standards Committee
<b>Report title:</b>		Annual Governance Statement 2020-21	
<b>Ward(s) or groups affected:</b>		All	
<b>From:</b>		Strategic Director of Finance and Governance	

### RECOMMENDATION

1. That the audit, governance and standards committee approve the Annual Governance Statement (AGS) 2020-21 as attached at Appendix 1.

### BACKGROUND INFORMATION

2. The Accounts and Audit Regulations 2015 require that the annual governance statement be presented to and approved by an appropriate committee of the council. Under the constitution, the audit, governance and standards committee is the body that formally receives the annual governance statement.
3. The 2015 Regulations require the annual governance statement to accompany the signed and dated accounts and to be approved at the same time as the statement of accounts. The draft annual governance statement for 2020-21 was reviewed by the audit, governance and standards committee in June 2021. Formal approval of the statement is now sought.
4. Following this approval, the annual governance statement should be signed by the most senior member of the council and most senior officer, who are the leader of the council and the chief executive.
5. From March 2020, the council has been impacted by the coronavirus pandemic, issues of assurance are raised in the 'Governance issues' section of the annual governance statement and highlighted in the 'Areas of Significant Change'.

### KEY ISSUES FOR CONSIDERATION

6. Every year, each local authority is required by law to conduct a review of the effectiveness of its system of internal control and to publish a statement reporting on the review, the annual governance statement, with its financial statements. The draft statement, this year, has included consideration of the impact on council services of the coronavirus pandemic.

7. The annual governance statement is therefore a mandatory statement that recognises, records and publishes the council's governance arrangements as defined in the CIPFA/SOLACE framework for good governance in local authorities. It reflects how the council conducts its business, both internally and in its dealings with others. Its objective is to provide assurance on the effectiveness of the corporate governance arrangements and to identify significant governance issues requiring management action. The draft AGS has been circulated to strategic directors. It has also been agreed by the corporate governance panel (CGP) in July 2021
  
8. The statement is produced following a review of the council's governance arrangements and system of internal control. The review consists of an evaluation of the council's governance arrangements against the best practice described in the CIPFA guidelines. This includes an assessment of the systems and processes for:
  - establishing the council's principal statutory obligations and organisational objectives and applying the six CIPFA/SOLACE core principles of good governance
  - identifying the principal risks to the achievement of the council's objectives
  - identifying and evaluating key controls to manage the council's principal risks
  - obtaining assurances on the effectiveness of key controls.
  
9. The statement has also been reviewed by Grant Thornton the council's external auditor.

### **Community impact statement**

10. This report and the accompanying annual governance statement are not considered to have a direct impact on local people and communities. However, good governance arrangements are important to the delivery of local services and to the achievement of outcomes.

### **Resource implications**

11. There are no direct resource implications in this report.

### **Consultation**

12. There has been no consultation on this report.

### **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

13. None required.

**BACKGROUND DOCUMENTS**

<b>Background Papers</b>	<b>Held At</b>	<b>Contact</b>
Financial and Information Governance files	Finance and Governance, Second Floor, 160 Tooley Street, SE1 2QH	Geraldine Chadwick Email: Geraldine.Chadwick@southwark.gov.uk

**APPENDICES**

<b>No.</b>	<b>Title</b>
Appendix 1	Annual Governance Statement 2020-21

**AUDIT TRAIL**

<b>Lead Officer</b>	Duncan Whitfield, Strategic Director of Finance and Governance	
<b>Report Author</b>	Geraldine Chadwick, Interim Technical Accountant	
<b>Version</b>	Final	
<b>Dated</b>	2 September 2021	
<b>Key Decision?</b>	No	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Director of Law and Governance	No	N/A
Strategic Director of Finance and Governance	N/A	N/A
<b>Cabinet Member</b>	N/A	N/A
<b>Date final report sent to Constitutional Team</b>		3 September 2021

## Appendix 1

# Annual Governance Statement 2020-21

## Introduction and acknowledgement of responsibility

Southwark Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It needs to ensure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

The Accounts and Audit Regulations (2015), as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, require the council to conduct a review, at least once a year, on the effectiveness of its system of internal control and include an Annual Governance Statement reporting on the review with the Statement of Accounts.

## The principles of good governance

The CIPFA/SoLACE Delivering Good Governance publication (2016) defines the various principles of good governance in the public sector. The document sets out seven core principles that underpin the governance framework and these are set out in Table 1 below

**Table 1 – Core principles of the CIPFA/SoLACE framework**



Annex 1 sets out in more detail how the council is meeting these seven requirements in practice.

## Key elements of the council's governance arrangements

The governance framework at Southwark Council comprises the systems and processes, culture and values which the council has adopted in order to deliver on the above principles. The council has a separate code of governance which is consistent with the principles of the CIPFA/SoLACE framework (2016). This is updated each year and evidence actively collated and assessed for compliance. Compliance with the code has been updated and reviewed by the council's corporate governance panel (CGP) in April 2020 and reported to the audit, governance and standards committee in June 2020. The CIPFA Financial Management Code 2019 (FM Code) was introduced during 2020-21, to improve the financial resilience of organisations by embedding enhanced standards of financial management. Although the implementation of the FM Code is mandatory only from 2021-22, the council has assessed compliance with the Code in 2020-21, to ensure that financial outcomes are sustainable.

The governance framework incorporated into this AGS has been in place at Southwark Council for the year ended 31 March 2021 and up to the date of the approval for the statement of accounts.

**Table 2 – Overview of the council's governance framework**

<p style="text-align: center;"><b>Council, Cabinet and Leader</b></p> <ul style="list-style-type: none"> <li>➤ Provide leadership, approve the budget, develop and set policy</li> <li>➤ Approve the constitution which sets out how the council operates</li> <li>➤ Agree borough plan priorities, developed in consultation with residents and stakeholders</li> </ul>	<p style="text-align: center;"><b>Scrutiny and review</b></p> <ul style="list-style-type: none"> <li>➤ Scrutiny commissions review council policy and can challenge decisions</li> <li>➤ Audit, governance and standards committee reviews governance and promotes and maintains high standards of conduct by councillors</li> </ul>
<p style="text-align: center;"><b>Decision making</b></p> <ul style="list-style-type: none"> <li>➤ All decisions made in compliance with law and council constitution</li> <li>➤ Meetings have either been held in public or access has been arranged for the public to attend virtual meetings</li> <li>➤ Decisions are recorded on the council website</li> </ul>	<p style="text-align: center;"><b>Risk Management</b></p> <ul style="list-style-type: none"> <li>➤ Risk management strategy ensures proper management of risks</li> <li>➤ Risk registers identify both strategic and operational risks</li> </ul>
<p style="text-align: center;"><b>Chief Officers Team</b></p> <ul style="list-style-type: none"> <li>➤ Head of Paid Service is the Chief Executive and is responsible for all council staff and leading an effective chief officer team (COT)</li> <li>➤ The Strategic director of Finance and Governance is the council's Section 151 officer and is responsible for safeguarding the council's financial position and ensuring value for money</li> <li>➤ The Director of Law and Governance is the council's monitoring officer who, with the Strategic Director of Finance and Governance, is responsible for ensuring legality and promoting high standards of conduct in public life.</li> </ul>	

The council assembly is responsible for approving the budget, developing policies, making constitutional decisions and deciding local legislation. The council assembly elects the leader for a term of four years, and the leader appoints a cabinet of up to ten councillors (including him/herself), each holding a special portfolio of responsibility. A new council leader, Councillor Kieron Williams was appointed in September 2020.

The council's constitution is updated throughout the year and sets out how the council operates. It states what matters are reserved for decision by the whole council, the responsibilities of the cabinet and the matters reserved for collective and individual decision, and the powers delegated to panels, committees and community councils. Decision-making powers not reserved for councillors are delegated to chief officers and heads of service. The monitoring officer ensures that all decisions made are legal and supports the audit, governance and standards committee in promoting high standards of conduct amongst members.

The overview and scrutiny committee and its scrutiny commissions scrutinise decisions made by the cabinet, and those delegated to officers, and review services provided by the council and its partners. The scrutiny officer promotes and supports the council's scrutiny functions.

The cabinet has developed a fairer future vision for Southwark, which is published on the council's website. It is reviewed and updated according to changing statutory requirements, the evolving social and economic situation, analyses of needs and the performance of the council against its priorities

The council welcomes views from the public and community as part of the constitutional process. These views are considered through formal and informal consultation processes, attendance at local meetings (e.g. community council meetings) or contact with a local ward councillor. Trades unions are consulted on issues that affect council staff.

The overall budget and policy framework of the council is set by the council assembly and all decisions are made within this framework. The council's overall policy is represented through the [Borough Plan](#) which is developed alongside the budget through consultation with residents and other stakeholders in the borough, and which sets out how the fairer future vision will be delivered. Performance against the borough plan is monitored throughout the year. Progress is reviewed quarterly by the leader, lead cabinet member for performance and respective cabinet members and is reported through an annual performance report at the end of each financial year. The council also monitors its performance through feedback from its residents and service users.

The Borough Plan is a key reference tool for the Fairer Future medium term financial strategy and integrated efficiency plan which enables the council to make best use of financial resources available and to enable the continued provision of value for money services that meet the needs of residents, businesses and other stakeholders. A new Borough Plan for the period to 2022 was approved by council assembly in November 2020.

From the Borough Plan, service plans and business plans are developed and individual officer work plans are agreed, with performance targets agreed at every level. Detailed budgets are aligned to corresponding plans following a robust budget challenge process, which challenges managers to demonstrate efficiency and value for money, and performance is monitored and managed at every level on a regular basis.

The performance management process helps to identify learning and development needs, which are translated into personal development plans for staff. Members are also offered development opportunities, in line with their own personal development plans. The council provides a complete programme of learning and development to officers and members. Senior officers are also expected to keep abreast of developments in their profession.

The council also has a whistleblowing policy, which encourages staff and other concerned parties to report any instances of suspected unlawful conduct, financial malpractice, or actions that are dangerous to the public or environment.

The council expects the highest standards of conduct and personal behaviour from members and staff; and promotes and maintains high standards of conduct by both elected and co-opted members of the authority. These standards are defined and communicated through codes of conduct, protocols and other documents.

The council's financial management arrangements conform to the governance requirements of the CIPFA "Statement on the Role of the Chief Financial Officer in Local Government" (2016). The chief financial officer is the Strategic Director of Finance and Governance, who has statutory responsibility for the proper management of the council's finances and is a key member of the chief officer team. He formally devolves the management of the council's finances within departments to strategic directors through the Scheme of Delegation for Financial Authority and Accountability. Strategic directors further devolve decision making through departmental schemes of management. The Strategic Director of Finance and Governance also provides detailed finance protocols, financial regulations, procedures, guidance and finance training for managers and staff.

The council's assurance arrangements conform to the governance requirements of the CIPFA "Statement on the Role of the Head of Internal Audit in Public Service Organisations" (2019). The chief audit executive reports functionally to the audit, governance and standards committee, which approves the audit plan and strategy and receives reports throughout the year on audit and anti-fraud activity, as well as the annual report and opinion on the internal control framework.

The council's risk management strategy ensures proper management of the risks to the achievement of the council's priorities and helps decision making. In the council's day-to-day operations, a framework of internal controls (e.g. authorisation, reconciliations, separation of duties, etc.) manages the risks of fraud or error, and this framework is reviewed by internal audit. The council has appropriate arrangements in place to deal with fraud and corruption risks and is committed to maintaining its vigilance to tackle fraud. Partnership working is governed by agreements, protocols or memoranda of understanding relevant to the type of work or relationship involved. The council's legal services and procurement teams ensure that all are fit for purpose and the council's interests are protected.

The audit, governance and standards committee is responsible for monitoring the effective development and operation of corporate governance in the council. It provides independent assurance of the adequacy of the council's governance arrangements, including the risk management framework and the associated control environment, the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, oversight of the financial reporting process and scrutiny of the treasury management strategy and policies.

## Review of effectiveness

Southwark Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The review of effectiveness is informed by the work of the senior managers within the council who have responsibility for the development and maintenance of the governance environment, the chief audit executive's annual report, and by comments made by the external auditors and other review agencies and inspectorates.

The key elements of the review of effectiveness are:

- the council's internal management processes, such as performance monitoring and reporting; the staff performance appraisal framework; internal surveys of awareness of corporate policies; monitoring of policies, such as the corporate complaints and health and safety policies; and the corporate budget challenge process
- An annual self-assessment and management assurance statement signed by strategic directors, confirming that the Code of Conduct, Financial Standing Orders and Financial Regulations and other corporate governance processes have operated as intended within their directorates throughout the year
- The annual report of the chief audit executive provides an opinion to members on the adequacy and effectiveness of the internal control system, the council's risk management and governance process. Due to the Covid-19 pandemic, audits that were delayed at the start of 2020-21 were rescheduled so that the plan could be rolled forward to the first quarter of 2021-22.
- The overall assurance was 'moderate' which denotes that the overall audit work conducted significantly meets expectations and provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review.
- The annual report of the chief audit executive made reference to the changes that have occurred in practice in 2020-21, due to the impact of the Covid-19 pandemic. For example, audit work was paused until August to allow the council to prioritise the response to the pandemic; from September audit work resumed with a focus on key risk areas and 'self contained' audits which sought to minimise further demand on council officers. Meetings moved from face to face meetings and consultation to virtual meetings
- The work of the corporate governance panel (CGP) to ensure that the council continues to have appropriate and fit for purpose governance arrangements that are recognised and applied across the council.
- The work of the audit, governance and standards committee which includes responsibility for monitoring the development and operation of corporate governance in the council. In 2020-21, three committee meetings included an agenda item 'Governance conversation' where Chief

Officers gave an overview of particular governance issues allowing for an open and transparent discussion on the governance arrangements within the council.

- The review of compliance with the CIPFA Financial Management (FM) Code 2020-21. The purpose of the [new] code is to provide a strong foundation to manage financial resilience, to meet unforeseen demands on services and to manage unexpected shocks in financial circumstances. Although implementation in 2020-21 was not compulsory, the impact of the Covid-19 pandemic provided an example of an unexpected financial shock that provided a critical test of the financial resilience of the council.
- The council reviewed sustainability against the CIPFA financial resilience index over 2 years scoring as 'low risk' on the reserve sustainability measure and 'extremely low risk' regarding the change in reserves year on year.

## Assurance statement

The review, as detailed above, provides good overall assurance of the council's system of internal control and that the arrangements are fit for purpose in accordance with the governance framework.

From March 2020, the council has been impacted by the coronavirus pandemic, issues of assurance are raised in the 'Governance issues' section and have been highlighted in the 'Areas of Significant Change' section.

## Governance issues

Specific opportunities for improvement in governance and internal controls identified as part of the assurance processes have been addressed, or are included, in action plans for the relevant managers.

There was a continued focus on the following significant governance issues highlighted last year:

1. The council's Fairer Future Procurement Framework was refreshed to bring together commitments made in the Borough Plan, Southwark Stands Together and the Economic Renewal Plan and also included updates in respect of Equality, Diversity and Inclusion in the council's procurement processes.
2. The nature of the council's business activities means that there are ongoing information governance risks, including cyber security and IT network security, which continues to require careful management, particularly in the context of the IT shared service arrangements. The continuing need to improve services and enhance customer access to those services means that integration, optimisation and security of the use of data held and managed by council departments continues to be of paramount importance. Monitoring of the continuous service improvement plan continued throughout 2020-21
3. The commitment to ensure Southwark is carbon neutral by 2030. The council continues to invest substantial resources in projects that contribute to this key priority, including the

commitment to build energy efficient new homes, to provide efficient heating systems in council homes, to plant trees and to improve air quality.

4. The continued management rigour in ensuring strong and effective governance of the council's ambitious housing delivery programmes, including the regeneration programme.

5. The funding of local government after years of austerity and the uncertainty around future funding due to a lack of a multi year settlement continue to subject the council to considerable risk.

Specifically highlighted in the 2019-20 Annual Governance Statement was the impact on council services of the Covid-19 pandemic. This continued to be a significant risk throughout 2020-21. Although 'business as usual' had to change, key governance processes and functions have been maintained and have been found to be robust during the unprecedented shock of the Covid-19 pandemic.

#### *Impact of the Covid-19 pandemic in 2020-21*

6. Since the start of the pandemic in March 2020, the council has operated with some level of emergency response arrangements, in line with the principles laid out in the generic emergency plan, to provide an effective structure to coordinate and support the delivery of our critical services both during the initial outbreak and into the more recent phases of response.

There are three levels of command and control in the emergency response arrangements– gold, silver and bronze. Gold represents the strategic level, responsible for formulating the strategy for the incident and has overall command of resources of their own organisation. Silver is the tactical level, in charge of devising the tactics to achieve the overall strategy set out by Gold. Council Silver will usually work from the Borough Emergency Coordination Centre to direct the council's response. Bronze is the operational level, responsible for controlling and deploying resources to deliver the tactics set out by Silver. These arrangements have been scaled up or down relative to the level of local infection, response and impact of Covid on the borough. As a minimum this has included:

- A gold/silver situation update meeting weekly, chaired by the Director of Response and Renewal (Covid Gold) and involving the Director of Public Health (DPH), communications, emergency planning, human resources and key enabling services;
- A weekly Chief Officer Team (COT) response update;
- Fortnightly Covid briefing meeting with cabinet members and Covid gold/silver, chaired by the Leader;
- Twice weekly 'start up' meetings with the Leader and Covid gold/silver;
- Monthly meetings with Trade Union (TU) representatives, Covid gold/silver and the Head of Human Resources.

7. In addition, directors have met monthly to report on issues by exception and service heads have tracked service status on a weekly basis, reporting any issues by exception for onward reporting to the COT, the Leader, cabinet and TU colleagues. Throughout, the council's normal governance and decision making process have applied. Further, the specific public health response to the Covid pandemic has been managed through the outbreak prevention and control executive (OPCE), chaired by the Director of Public Health, which meets fortnightly. OPCE reports through to the Health and Wellbeing Board (HWBB). This group involves cross-council teams and the Clinical Commissioning Group (CCG)/ health representation and covers issues by exception such as

enforcement, vaccination, local testing. To co-ordinate the vaccine roll out, the CCG have set up governance arrangements reporting to and through the HWBB.

8. Priorities during 2020-21 changed with the council focussing on the need to distribute emergency funding to vulnerable residents, support local businesses and communities as well as maintaining essential services. The council set up the 'community hub' in response to the pandemic and provided support from the Southwark emergency support scheme. These schemes have provided social and welfare support and access to essential food and other supplies to 22,000 of the most vulnerable households in 2020-21.

9. The COVID-19 pandemic exacerbated the financial challenges of declining central government resources coupled with significant extra demand for services. In the financial year 2020-21 the government provided additional support for the additional costs and income losses resulting from the impact of the pandemic. The council maintained a log of all spending commitments and income losses to enable full accountability and reported this financial impact monthly to the Ministry of Housing, Communities and Local Government (MHCLG). The audit, standards and governance committee received reports at all meetings in 2020-21, reviewing these returns and monitoring the impact on council finances against central government grants.

10. The borough plan was updated (2020-2022) and approved at council assembly on 25 November 2020 to accommodate changes brought about due to the Covid-19 pandemic. The refreshed borough plan has sought to prioritise public health, rebuild the local economy and tackle inequalities and deliver on the rising demand for essential council services whilst recognising the need to maintain an adequate level of reserves and balances to protect against future funding uncertainty.

11. The pandemic and the resultant imposition of lockdowns have had a fundamental impact on the operation and financial performance of the council's leisure facilities. Income has reduced and financial support has been required to keep facilities open. The council has prioritised the health and wellbeing of Southwark residents and incorporated revised expenditure and income budgets into the 2021-22 council budget.

12. There was an adverse impact on the delivery of the 2020-21 capital programme due to the impact of the pandemic. The council has reviewed the entirety of the capital programme, to consider those projects which are to be prioritised and those areas where adjustments to timescales are required. In addition, the council renewed the asset management plan in January 2021 which reset the policy framework to align with the council's strategic corporate priorities reflecting the impact of the Covid-19 pandemic as well as the recovery from it.

But despite all these challenges and adaptations in 2020-21, the council has maintained consistent essential services for residents, whilst adapting to provide alternative virtual services wherever possible. The council's strong collaborative approach has continued to be effective at achieving a unified response, working with key partners in the NHS, police and voluntary and community sectors. In fact, the response to the crisis has added assurance to the effectiveness of the council's business continuity plans, communications strategy and governance arrangements.

The risks moving forward have been detailed in the Areas of Significant Change.

## Areas of significant change

The council also faces a number of areas of significant change that will require consideration and action as appropriate in 2021-22 and the medium-term. Significant issues identified include:

### *Impact of Coronavirus pandemic on council services 2021-22*

To reflect the easing of restrictions, as per the government's roadmap, Covid council wide emergency response arrangements and associated meetings will cease from 1 June 2021. But the council has reserved the right to stand up emergency response arrangements in relation to Covid, in line with the principles of the generic emergency plan. In response to any developing situation, the Director of Public Health (DPH) will decide if the frequency of the OPCE meetings needs to be increased and will provide briefings to the Chief Officer Team (COT). Based on advice from the DPH, COT will determine if it is required stand up the gold level strategic group and/or the tactical silver level group. Decisions on the organisational response will be based on national guidance and local circumstances. Strategic directors will be responsible for reviewing their own departmental positions and to implement any revised working arrangements. Again, all decisions will be made in line with the Council's normal governance and decision making processes.

The Coronavirus Act (2020) allowed authorities to conduct meetings and take decisions in ways other than face to face so that decisions could be made to maintain good governance, principles of openness and accountability. Virtual meetings were instigated to ensure transparency and good governance whilst also facilitating extensive access to the public and press. Despite councils wishing to continue these in 2021-22, emergency legislation is not to be extended beyond 7 May 2021. As restrictions will not have been fully lifted at this date, the council will have to plan carefully for how to hold meetings in person.

Additional demands were made on IT systems and staff with most office based staff continuing to work remotely throughout 2020-21. Changes to ways of working will need careful management as lockdown continues to ease in 2021-22.

For 2021-22, there will be a focus on ensuring that internal audit work not completed in 2020-21 due to the Covid-19 pandemic is prioritised, where this is still appropriate. However, the overall plan is set within the context of a multi-year approach to internal audit planning, such that all areas of key risks are reviewed over a three to five year audit cycle. The impact of the pandemic was routinely considered throughout the year. There will be a review of the control framework, compliance, policies and procedures, operating in 2020-21, to see what impact the changes necessitated during the pandemic had on both risk and efficiency. Internal audit work will also focus on the recovery processes and review those areas, such as the distribution of Covid-19 grants, where risks have unavoidably increased.

The council will receive £11 million to support the ongoing financial impact of the pandemic. This was to support the extra costs that are expected between April and June 2021. But there is uncertainty as to whether this is sufficient to support residents and businesses and whether the financial impact of the pandemic beyond June will attract further government funding. The council will continue to submit returns to the MHCLG and to report regularly to the audit, standards and governance committee as to the expected ongoing impact of the pandemic and the route and length of recovery.

A report by Grant Thornton (GT)<sup>1</sup> has suggested that the those councils who committed to maintaining adequate reserves despite a period of grant reduction, *'have not only continued to provide strong services but have also put themselves in a position to ride out the current pandemic storm'*. The report further notes that the lessons to be learnt, include councils' compliance to the CIPFA<sup>2</sup> Financial Management (FM) code, which places the financial resilience of councils as the ability to maintain sound reserves, which in turn translates to sound financial governance. For those councils that had insufficient and declining reserves at the start of the pandemic, the pandemic exposed the instability caused by an era of reduced government grants.

The review of the compliance with the FM code in Southwark included reviewing financial sustainability against the CIPFA<sup>3</sup> Financial Resilience Index over the previous two years. The council scored as 'low risk' on the reserve sustainability measure and 'extremely low risk' regarding the change in reserves year on year. The council will continue to review compliance with the FM code and set a path of continuous improvement in place, including placing the importance of a robust Medium Term Financial Strategy (MTFS) as a key element in sustainability and coordinating the review of balance sheet management. From these reviews the council has recognised the need to maintain higher levels of reserves if additional and significant revenue pressures emerge. The use of General Reserves, the Financial Risk Reserve, the Business Rate Retention Risk Reserve and other reserves all form part of the mitigation strategy against future financial risks.

For 2021-22 the Grant Thornton report highlighted further risks posed from the COVID-19 pandemic for local economies, such as the future of the high street and increased demand pressures including for example, unemployment and care services linked to mental health. The post pandemic landscape though not yet fully understood will continue to test financial governance arrangements and risk mitigation strategies. At an operational level, the report suggests that the common early indicators of future governance failings include a lack of strategic alignment between financial, operational and political agendas, linked to a lack of corporate ownership of the medium-term financial plan and savings commitments.

To support this alignment in Southwark, council members work collegiately when making strategic decisions that have long term implications. Budgets set are realistic and subject to intense budget challenge from council members. The council budget for 2021-22 has been based on robust and realistic assumptions. However, the uncertainties of the economic environment, the fact we are awaiting a multi-year settlement, the scale of the expenditure reductions faced over the last decade and the growing demands on services, mean that there are still significant risks facing the authority. To mitigate this risk, the budget challenge process will start earlier in 2020-21 to ensure that there is time to consider options to manage future service and funding risks.

Southwark Stands Together (SST) affirms our commitment and pledge as a council to tackle inequality in our workforce and communities and has therefore been embedded into our practices to ensure that equality, diversity and inclusion (EDI) is treated as a business critical issue. Our

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<sup>1</sup> Grant Thornton 'Lessons from recent Public Interest reports' (2021)

<sup>2</sup> CIPFA 'Financial Management Code' (2019)

<sup>3</sup> CIPFA 'Financial resilience Index' (2019, 2020)

leaders have a responsibility to engage with our workforce to adopt a positive action approach to achieve sustainable improvements in the EDI space. The pandemic has highlighted the increased risk to many of our vulnerable employees who may be more likely to suffer from adverse impacts should they contract the virus. We continue to work with our public health colleagues to increase awareness and take up of the vaccine particularly in hesitant communities where take up is low.

The council has put measures in place to identify potential risks by putting individual risk assessments in place to safeguard our most vulnerable employee in the workplace which will in turn add increased protection in our communities. Much of the risk in this area is being managed via the monitoring of individual risk assessments to make sure we have appropriate staffing levels to deliver services to residents. This has been successful so far and we continue to provide our leaders and managers with interventions and support to maintain the health and well-being of our workforce.

SST remains a priority for our workforce over the coming months as we embed the outcomes of the programme into business as usual. However, there will be on-going oversight of progress around EDI which is being monitored by our Chief Officer Team. This will ensure that we continue to improve the experience of our Black, Asian and ethnic minority colleagues to eliminate discriminatory practices across the council whilst we continue to protect the health and well-being of our workforce through the adoption of anti-racist interventions and strategies.

#### *Other governance risks for 2021-22*

Despite the promise of additional funding for local government in 2021-22, no new money was made available. Instead, and as expected, the council had to use the flexibility offered by the government to support adult social care through a precept equivalent to 3%, (on the basis that these additional funds will be used exclusively for adult social care) and to set a 1.99% increase in council tax for 2021-22 to protect vital frontline services. And there remains continued financial uncertainty regarding government funding of local government beyond 2021-22, as a result of the lack of a multi-year settlement, and potential changes to the way local government is funded, as well as wider economic uncertainty due to the pace of the economic recovery after the Covid-19 pandemic and the impact of Brexit.

The corporate risk register has been updated to include the risk of slow economic recovery in the post pandemic era as government support is reduced or withdrawn results in high levels of unemployment and other societal fragmentation leading to increased demand for council services such as social care, welfare support and housing resulting in potential for conflicting demands on funding available. The council will continue to monitor the impacts on council services and local economy to support the post pandemic recovery. There will continue to be pan London engagement to communicate with government and other agencies and a focus on the economic renewal plan to ensure a fair and balanced community recovery with the ability to react to wider economic and socio-economic trends, including recession, unemployment and the potential impact on homelessness.

The increasing need for and cost of demand led services such as social care, social housing, temporary accommodation, welfare support and no recourse to public funds creates significant pressures on budgets. Budget commitments to fund these pressures to ensure service sustainability

amounts to £16.8m in 2021-22. Areas of demand pressures will continue to be closely monitored in 2021-22.

The Dedicated Schools Grant (DSG) has a £21m deficit due to significant unfunded pressures on high needs at the end of 2020-21. The government announced increases in high needs funding for 2021-22 which will assist in year pressures but will not resolve the accumulated deficit. This situation will require close monitoring together with a review of the impact of the coronavirus pandemic on schools spending in 2021-22.

The pandemic saw a temporary increase in universal credit, which is set to finish in September 2021. If there is no managed or gradual transition to the lower rates of universal credit, post pandemic, this will create direct and indirect financial pressures on the council through increased demand for all services to those affected by the changes and council tax collection and rent payments may worsen.

The Southwark housing strategy has been updated to reflect changes to the borough plan and the New Southwark plan, plans for regeneration and plans to deliver 11,000 new council homes by 2043; with all new homes to be carbon zero. It is a long term strategy where additional funding will be required and the council will seek to work with partners and lobby central government to bring in this additional funding in the long term.

The Climate Emergency is a major focus for the council, working in partnership with stakeholders, partners, staff and residents to tackle the effects of global warming. The Council has published a Climate Emergency strategy setting out how the council will become carbon neutral by 2030.

## Conclusion

The council has been hugely impacted by the Covid-19 pandemic. Governance arrangements have been tested but have found to be robust and resilient in 2020-21, whilst recognising that the pandemic will continue to bring substantial risks to the council in 2021-22. There will be an ongoing review of the financial impact as well as the impact on procedures and processes relating to the emergency.

The council is satisfied that appropriate governance arrangements are in place. We propose over the coming year to take steps to address the matters identified above to further enhance our governance arrangements in these challenging times.

Signed on behalf of Southwark Council:

**Eleanor Kelly**  
**Chief Executive**  
**Date:**

**Kieron Williams**  
**Leader of the Council**  
**Date:**

## Annex 1 – The CIPFA/SoLACE framework

### **Priority 1 – Behaving with integrity, with commitment to ethical values, and respect for the rule of law**

Codes of Conduct for members and officers reinforce a public service ethos and high standards of behaviour. These are supported by more detailed guidance such as anti-fraud strategy, whistleblowing policy, complaints procedure, contract standing orders, equality and diversity policy (including pledge made in Southwark Stands Together), member and officer protocol.

### **Priority 2 – Ensuring openness and comprehensive stakeholder engagement**

The council engages with stakeholders and partners through joint working arrangements, partnership boards and representation on external bodies' governing boards. Meetings are held in public or access is given to attend Virtual Meetings (unless good reasons for confidentiality) and decisions published on the website. Consultation arrangements are embedded and consultation engagement section on the website includes a consultation hub, forum section. Regular customer surveys are conducted.

### **Priority 3 – Defining outcomes in terms of sustainable economic, social and environmental benefits**

The council's vision for the borough is set out in Fairer Futures. The borough plan sets out how we will deliver the Fairer Future vision and this is underpinned by departmental, service and business unit plans.

### **Priority 4 – Determining the intervention necessary to achieve intended outcomes**

The council tracks performance against the fairer futures promises and borough plan themes in the borough plan performance schedules and produces an annual performance report. Senior management and members ensure the council remains focussed on delivering against agreed objectives and priorities set out in Fairer Futures and underpinned by fairer future medium term financial strategy.

### **Priority 5 – Developing capacity, including the capability of leadership and individuals within the council**

The council's Fairer Future workforce strategy helps make sure that the council's staff can deliver the corporate plans and priorities for the borough. The council continues to invest in training through corporate learning and development programme including member training and development programme. The Southwark Manager toolkit aimed at improving individual and organisational performance.

### **Priority 6 – Managing risks and performance through strong internal control and financial management**

The council has a risk management process to support the management of key risks facing the council. The risk management process is supported by the council's risk management strategy. All departments and business units have risk registers which allocate a risk owner and are regularly reviewed. Internal audit arrangements and audit work programme designed to give assurance on the risk management and internal control processes. The audit, governance and standards committee provides independent assurance of the adequacy of the council's governance arrangements, including its risk management framework and the associated control environment. The council has robust financial management arrangements.

### **Priority 7 – implementing good practices in transparency, reporting and audit to deliver effective accountability**

Minutes of meetings, key decisions, and register of interests, gifts and hospitality and all items of expenditure over £250 are published on the council's website. The council produces an annual performance report, annual financial statements (including details of senior officer remuneration and member allowances) and an annual governance statement.

**COMMITTEE: AUDIT, GOVERNANCE AND STANDARDS COMMITTEE (OPEN AGENDA)**

**NOTE:** Original held in Constitutional Team; all amendments/queries to Virginia Wynn-Jones, Constitutional Team on 020 7525 7055 or [virginia.wynn-jones@southwark.gov.uk](mailto:virginia.wynn-jones@southwark.gov.uk)

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Councillor Graham Neale (Vice-chair)	By email
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Councillor Dora Dixon-Fyle	By email
Councillor Tom Flynn	By email
Councillor Andy Simmons	1
Councillor Michael Situ	By email

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Councillor Nick Dolezal	By email
Councillor Karl Eastham	By email
Councillor Hamish McCallum	By email

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Councillor Rebecca Lury	By email
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**COMMUNICATIONS**

Louise Neilan	By email
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**CONSTITUTIONAL TEAM**

Virginia Wynn-Jones	2
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**INDEPENDENT PERSONS**

Mr Musa Chungu	By email
Ms Amrit Mangra	By email
Mr Charles Wynn-Evans	By email

**FINANCE AND GOVERNANCE**

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Rob Woollatt	By email

<b>BDO (Internal Auditors) – Greg Rubins</b>	By email
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<b>Total Print Run:</b>	<b>4</b>
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