

LONDON BOROUGH OF SOUTHWARK

INTERNAL AUDIT ANNUAL REPORT

Audit, Governance and Standards Committee

13 September 2017

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1. EXECUTIVE SUMMARY

Purpose of the report

This report details the work undertaken by internal audit for Southwark Council and provides an overview of the design and operational effectiveness of the controls in place.

The report includes the results of the work of the previous internal audit provider RSM as well as the work completed by BDO in the period 1 April 2016 to 31 March 2017. *Note that BDO has not reviewed RSM's work and can take no responsibility for the opinions they have reached.*

Internal audit plan 2016-17

The audit plan as approved by the former audit and governance committee at its meeting on 22 February 2016 has been delivered by internal audit.

The internal audit work undertaken by BDO covered the four month period from 1 December 2016 to 31 March 2017. There were no restrictions placed upon the scope of our audits. Our work has complied with the Public Sector Internal Audit Standards.

As reported in previous progress reports, the whole plan has been completed except for the reviews of contracts, commercial waste, data protection, housing adaptations, estates parking permits and temporary accommodation. All of these audits are included within internal audit work programme for 2017-18.

Chief Audit Executive opinion

The role of internal audit is to provide an opinion to members, through the audit, governance and standards committee, on the adequacy and effectiveness of the internal control system to ensure the achievement of the council's objectives in the areas reviewed.

The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by internal audit as outsourced providers of the service. It also summarises the activities of internal audit for the year.

Internal Audit Opinion for 2016-17

The basis for forming my opinion is as follows:

- An assessment of the design and operation of the underpinning risk management arrangements and supporting processes
- An assessment of the range of individual opinions arising from risk-based assignments contained within internal audit risk based plans that have been reported throughout the year. The assessment has taken account of the relative materiality of the areas reviewed
- Management's progress in respect of addressing control weaknesses and implementing recommendations
- Any reliance that is being placed upon third party assurances.

Overall, I am able to provide moderate assurance that there is a sound system of internal control, designed to meet the council's objectives and that controls are being applied consistently.

In forming this view I have taken into account that:

- Marginally, the majority of audits received either substantial or moderate assurance across the year
- Areas of weakness have been identified through some of our reviews
- Management has put in place action plans to address the audit findings in a timely manner
- Follow up audits have shown that 80% of recommendations are being implemented within agreed timeframes.

2. INTERNAL AUDIT OPINIONS AND RECOMMENDATIONS

Audit	BDO / RSM	Assurance opinion ¹		Number of Recommendations		
		Design	Operational effectiveness	High	Medium	Low
Council Wide / Thematic Reviews						
Access to Services	RSM	Reasonable		0	1	4
Capital Funding	RSM	Reasonable		0	3	2
Governance	RSM	Partial		3	1	6
Chief Executive's Department						
Commercial Property Portfolio	RSM	Reasonable		0	4	6
Planning Applications	RSM	Partial		0	5	7
Regeneration Programmes and Projects	BDO	Substantial	Substantial	0	0	4
Children's and Adults' Services						
Client Affairs	RSM	No		2	3	4
Deprivation of Liberty	RSM	Partial		1	0	1
Funding Panels	RSM	Reasonable		0	4	7
Mosaic (Adults)	RSM	Reasonable		0	4	5
Pupil Registry Systems	RSM	Substantial		0	0	2
Public Health	RSM	Reasonable		0	4	6
Commissioning of Services	BDO	Limited	Limited	1	6	3
Personalised Budgets and Direct Payments	BDO	Moderate	Limited	1	2	1

Notes:

1. BDO provide separate assurance opinions for the design of the control framework and the operational effectiveness of the controls as operated in practice and evidenced via audit testing. RSM provided a single assurance opinion on these factors. In terms of definitions, the opinions map on to one another quite closely. RSM and BDO's substantial and no assurance are broadly the same word, RSM's partial broadly equates to BDO's limited assurance and RSM's reasonable broadly equates to BDO's moderate assurance.

Audit	BDO / RSM	Assurance opinion ¹		Number of Recommendations		
		Design	Operational effectiveness	High	Medium	Low
Environment and Social Regeneration						
Cemeteries and Crematoria Income Management	RSM	Partial		1	0	3
Trading Standards, Food Safety and Health & Safety	RSM	Reasonable		0	4	4
Youth and Play Service	RSM	No		6	7	2
Emergency Planning and Resilience	BDO	Moderate	Moderate	0	1	3
Licencing and Environmental Protection	BDO	Moderate	Moderate	0	5	3
South Dock Marina	BDO	Limited	Limited	1	9	4
Southwark Building Services	BDO	Moderate	Moderate	0	3	3
Finance and Governance						
Access to Services - Council Tax	RSM	Reasonable		0	1	2
Access to Services - Housing Benefits	RSM	Reasonable		0	1	1
Access to Services - NNDR	RSM	Substantial		0	0	3
Pensions Administration (Admitted Bodies & AVCs)	RSM	Reasonable		0	3	5
Housing and Modernisation						
Access to Services - Housing and Modernisation	RSM	Reasonable		0	3	1
Housing Solutions - Homelessness	RSM	Partial		0	8	6
Housing Solutions - Other Services	RSM	Partial		0	9	12
No Recourse to Public Funds	RSM	No		3	4	1
Registrars Income Management	RSM	Reasonable		0	5	3
Sales and Acquisitions - Right to Buy	RSM	Partial		1	4	1
Tenancy Management Initiative / Organisations	RSM	Partial		0	8	3
IT Audits						
Cyber Security and Network Security	RSM	Partial		2	8	2
Payment Card Project Review / PCI Compliance	RSM	Partial		2	3	0
Strategy - Digital	BDO	Moderate	Moderate	0	3	0

Audit	BDO / RSM	Assurance opinion ¹		Number of Recommendations		
		Design	Operational effectiveness	High	Medium	Low
Main Financial Systems						
Council Tax	RSM	Reasonable		0	6	5
Housing Benefits	RSM	Partial		0	7	7
Housing Rents	RSM	Reasonable		0	3	7
NNDR	RSM	Reasonable		0	2	4
Creditor Payments	BDO	Substantial	Moderate	0	2	3
Mosaic Payments	BDO	Limited	Limited	2	0	0
Payroll and Expenses	BDO	Moderate	Limited	3	2	3

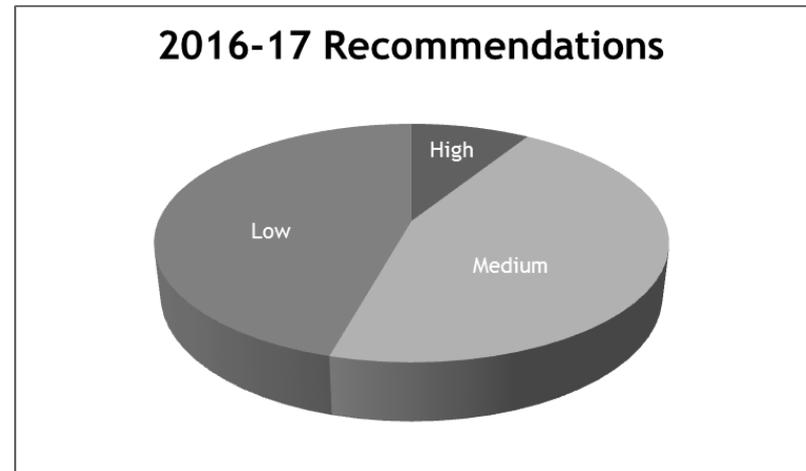
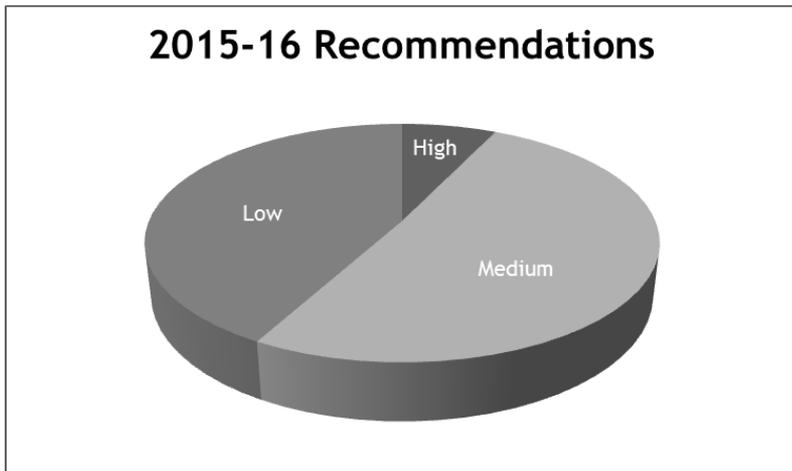
Schools internal audit plan 2016-17

In addition to the plan above, 25 schools were audited as part of the three year cyclical audit plan undertaken on behalf of the director of education. As summary of the internal audit opinion provided is set out below.

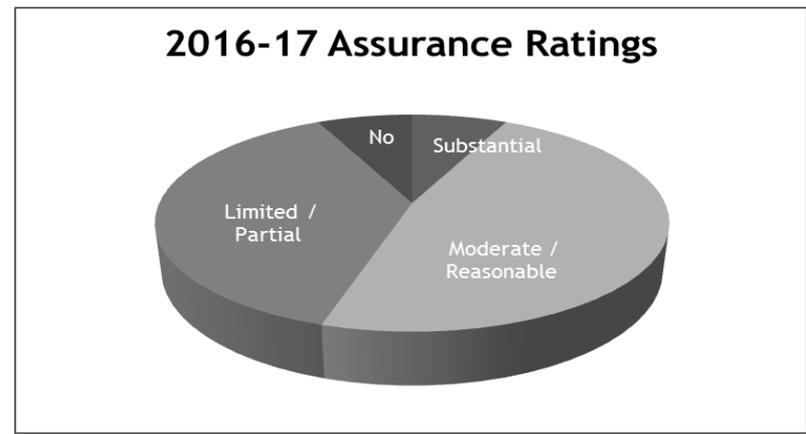
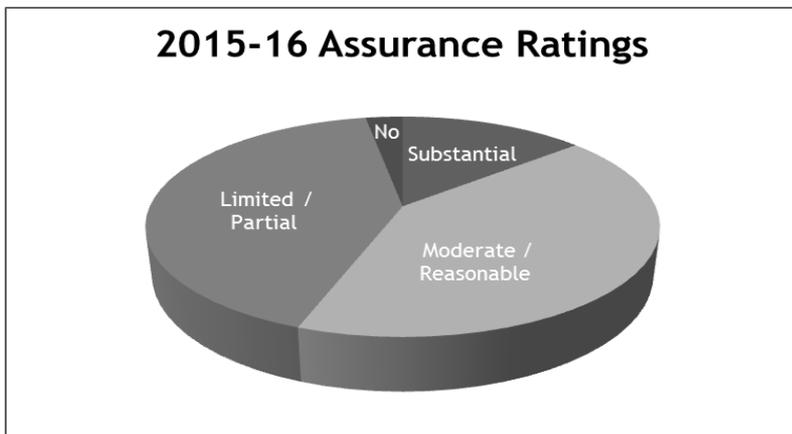
Internal Audit Opinions - BDO		Number of Schools
Design	Operational Effectiveness	
Substantial	Substantial	1
Substantial	Moderate	1
Moderate	Moderate	1
Moderate	Limited	5
Limited	Limited	1
Internal Audit Opinions - RSM		Number of Schools
Substantial Assurance		0
Moderate Assurance		9
Limited Assurance		7
No Assurance		0

3. RECOMMENDATIONS AND ASSURANCE DASHBOARD

The number of recommendations raised and their significance in 2016-17 compared to 2015-16 is set out below.



The relative proportion of overall opinion ratings for 2016-17 compared to 2015-16 is set out below. For comparative purposes the BDO opinion rating for operational effectiveness has been used.



APPENDIX - ASSURANCE DEFINITIONS

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

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