

London Borough of Southwark

**INTERNAL AUDIT ANNUAL REPORT AND ANNUAL
STATEMENT OF ASSURANCE**

2018/19

CONTENTS

	Page
Summary of 2018-19 Work and Head of Internal Audit Opinion	3
Review of 2018-19 Work	6
Summary of findings - dashboard	19
Common themes	21
Added value	22
Background to annual opinion	23
Key Performance Indicators	26
Appendix 1: Opinion and recommendation significance	28

SUMMARY OF 2018-19 WORK

Internal Audit 2018-19

This report details the work undertaken by internal audit for London Borough of Southwark and provides an overview of the effectiveness of the controls in place for the full year. The following reports have been issued for this financial year:

- Access to secure housing estates
- Accounts payable (health check)
- Adult day care provision
- Adult learning service
- Better care funding
- Budget recovery board - children's and adults department accountability statements
- Business continuity planning
- CCTV
- CHAPS
- Chargebacks
- Commercial waste
- Commissioning of social care
- Community council manual cheque payments
- Community support and engagement
- Contact centre
- Customer services channel shift
- Data protection / GDPR
- Estates cleaning and grounds maintenance
- General ledger
- Health and safety (draft report)
- Housing benefits and universal credit
- Housing Rents and universal credit
- Housing solutions - applications and allocations
- IT change controls
- IT shared services arrangements (draft report)
- Legal fees
- Markets
- Members allowances
- Modernisation programme
- Music service
- National non-domestic rates
- Parking management
- Payroll
- Procurement - fairer future strategy compliance (draft report)
- Public health - health in all policies
- Repairs and maintenance
- Right to buy and ad hoc sales
- Safeguarding - adults
- Sheltered housing
- Southwark building services (draft report)
- Tenancy management organisation - Browning
- Tenancy management organisation - Haddenhall
- Tenancy management organisation - Two Towers
- Waste contract/ PFI

We have also completed internal audit reviews on behalf of the Director of Education for twenty six schools.

We have included the purpose of each audit, assurance opinions and a summary of the high priority findings on pages 6 to 18.

We have included a summary of the school opinions provided on page 32. A full summary report for 2018-19 of key issues identified and common themes will be prepared ahead of the school year 2019-20 once all reports have been finalised. This will be presented to the Audit, Governance and Standards Committee in September 2019.

Our internal audit work for the 12 month period from 1 April 2018 to 31 March 2019 was carried out in accordance with the internal audit plan approved by management and the Audit, Governance and Standards Committee, with the exceptions listed below (the reasons for these changes have been reported through the year in the internal audit and anti-fraud progress reports):

- Additional audits at the request of management or the audit, governance and standards committee:
 - Access to secure housing estates
 - Chargebacks
 - Community council manual cheque payments
 - Fairer future procurement strategy compliance
 - Troubled families grant claim submission monthly audits

- Deferral of audits to 2019-20 at the request of management:
 - Building control
 - Housing solutions - homelessness
 - HR policies and procedures
 - Public health priority area review
 - Sickness absence management
 - Special education needs
 - Supported accommodation hostels

The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

Non internal audit services provided by BDO

The following non audit services have been provided by BDO during 2018-19:

- Assurance on development and payments due to the Council with regards to Berkeley Homes and the One Tower Bridge development.
- Audit of the Teachers' Pensions End of Year Certificate for the year ended 31 March 2017.
- Independent verification of the validity of historical costs relating to the Canada Water development.
- Refinancing advice - to support the council's assessment of the refinancing gain arising and the proposed sale of equity for a schools PFI by Amber infrastructure.
- Tax advice - on the tax issues arising from the dissolution of the One Tower Bridge Partnership (for the Regeneration Division of the Place and Wellbeing Department).

The work listed above is delivered by teams separate to the public sector internal audit team that provides internal audit services to the council. We do not consider the work undertaken to pose a threat to our independence or objectivity. We also provide support to the council on risk management and counter fraud, as part of the internal audit contract.

Head of Internal Audit Opinion

The role of internal audit is to provide an opinion to the council, through the Audit, Governance and Standards Committee, on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed.

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

The basis for forming my opinion is as follows:

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

Overall, we are 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 our view we have taken into account that:

- The council has performed broadly in line with budget regarding financial performance, with the outturn report for 2018-19 presenting a balanced outturn position for 2018-19, after movements to and from reserves, which the council was able to increase in closing the 2018-19 accounts.
- In respect of the design of the controls, an opinion of moderate assurance was provided for 27 out of the 46 assurance audits where reports have been issued, substantial assurance was provided in 12 areas. These opinions show a year on year improvement since 2016-17.
- In respect of the operational effectiveness of the controls, an opinion of moderate assurance was provided for 31 of the 46 assurance audits where reports have been issued, substantial assurance was provided in 3 areas, limited assurance in 12 areas and no assurance in one area. Whilst the number of substantial assurance opinions has decreased, there is overall year on year improvement since 2016-17, particularly with regards to the reduction in limited opinions.
- Management has responded positively to reports issued and action plans have been developed to address the recommendations raised
- We have confirmed that 88% of recommendations due for implementation by the date of reporting had been completed. However, some recommendations have been outstanding for significant periods of time and the implementation date put back several times (as reported in the internal audit and anti-fraud progress reports during the year).

Our annual report and head of internal audit opinion has been prepared based on the audit work undertaken during the year.

REVIEW OF 2018/19 WORK

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and High Priority Findings
	H	M	L	Design	Operational Effectiveness	
Access to secure housing estates	4	4	-	No Assurance	Limited	<p>Purpose of audit: to establish if the current controls are sufficient to ensure access to restricted areas on council housing estates such that only approved personnel, including contractors, who require access as part of their role can gain access.</p> <p>High priority findings:</p> <ul style="list-style-type: none"> No written contract with the company being used by the council for copying the keys to secure areas and holding the patent. The key register did not include all keys issued by the council, spare keys were being held in an unsecure location with no records, keys had not been returned when staff left the council and keys issued with a finite life had not been returned or could not be tracked through to keys held. A record of current contractors is not maintained to allow for scrutiny over whether these keys are held with non-current contractors. Incidents in restricted areas and the actions taken are not recorded, as well as a lack of guidance on the process to be followed and a lack of reporting of the cost implications of these incidents.
Accounts payable	1	2	-	Moderate	Moderate	<p>Purpose of audit: to provide assurance on the arrangements to manage creditor payments processed via SAP (both by the Financial Control and Processing team and other departments) to ensure that they are promptly and effectively brought into use.</p> <p>High priority finding:</p> <ul style="list-style-type: none"> A number of variations between SAP authorisation limits and the schemes of management were identified. A review of staff who had an unlimited authorisation level on SAP but did not on the relevant Departmental Scheme of Management identified 29 occasions where Purchase Orders,

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and High Priority Findings
	H	M	L	Design	Operational Effectiveness	
						totalling £118m, were authorised above their authority.
Adult day care provision	-	3	-	Moderate	Moderate	Purpose of audit: to provide a post implementation review following the decision to reduce provision from seven days to five, to assess the outcome against the original business case and identify any lessons to be learned for future decision making.
Adult learning service	-	-	2	Substantial	Substantial	Purpose of audit: to provide assurance over compliance with the control framework in place, including retention of documentation to support eligibility for ESFA funding and the collection of payments when the eligibility criteria have not been met.
Better care funding	-	1	1	Substantial	Moderate	Purpose of audit: to provide assurance over the control framework in place for ensuring that only expenditure which meets the agreed BCF plan is allocated to this budget and evidence is retained for reporting to the NHS as required.
Budget recovery board - children's and adults department accountability statements	-	1	-	Substantial	Moderate	Purpose of audit: to provide assurance over the effectiveness of the budget recovery board in relation to the improvement of the departments overall and individual services financial performance, and the robustness of the information presented to the board. Key finding
Business continuity planning	-	7	-	Moderate	Limited	Purpose of audit: to review the robustness of business continuity planning arrangements across the council, including plans, roles and responsibilities, communication, scenario planning and testing and lessons learned.
CCTV	-	2	-	Substantial	Moderate	Purpose of audit: to provide assurance that the control framework in place for the CCTV service is effective and compliant with legislation.
CHAPS payments	1	3	1	Moderate	Moderate	Purpose of this audit: to review the control framework for making urgent or emergency payments using CHAPS and provide assurance that payments made are valid, necessary, have full supporting evidence requests and are authorized in accordance with the council's authorization schemes.

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and High Priority Findings
	H	M	L	Design	Operational Effectiveness	
						<p>High priority finding:</p> <ul style="list-style-type: none"> There was insufficient documentation held with the CHAPS request forms in 9/25 transactions tested and a lack of appropriate authorisation in line with the scheme of management for 6/25 cases tested.
Chargebacks	-	3	2	Moderate	Moderate	<p>Purpose of audit: to carry out an assessment of the design and operational effectiveness of the council's chargeback policy and procedures concerning housing rents.</p>
Commercial waste	1	2	-	Moderate	Moderate	<p>Purpose of audit: to provide assurance over the commercial waste service, including whether objectives are being delivered, costs are being suitably managed and the soundness of the basis for charging in order to generate a surplus.</p> <p>High priority finding:</p> <ul style="list-style-type: none"> The mark up that was originally agreed with the partner and passed on to customers had not been recalculated to confirm the additional charge planned is still appropriate and covers the costs of the service. Not all costs associated with the management of the commercial waste service had been recharged to the service, including an estimated £120,000 of cleaning costs, meaning the true profitability of the service is not known.
Commissioning of social care	-	2	-	Substantial	Moderate	<p>Purpose of audit: to provide assurance over the procurement, contract management and decision making with regards to social care contracts, as explored in a recent internal audit of commissioning.</p>
Community council manual cheques	1	3	1	Limited	Limited	<p>Purpose of audit: to provide assurance over the processes in place for manual cheque payments made by the community council.</p> <p>High priority finding:</p> <ul style="list-style-type: none"> One cheque had been authorised without a date being recorded, and was also authorised despite the value in words and figures not reconciling and the recipient being recorded as a generic '1 2 3 current account'. The issuing of cheques without a date was a common practice as the

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and High Priority Findings
	H	M	L	Design	Operational Effectiveness	
						councillors sign the cheques in bulk at the start of the year and the community council officers may then retain the cheques for a long period of time until the groups provide the required supporting documentation.
Community support and engagement	-	-	1	Substantial	Substantial	Purpose of audit: to review the current process and controls on placing children in residential care, including commissioning, approval and financial monitoring and reporting.
Contact centre	-	3	1	Moderate	Moderate	<p>Purpose of audit: to provide assurance over the Southwark Monitoring and Alarm Response Team (SMART) service, including whether responses are timely and appropriate, as well as providing guidance on opportunities available to the council for expanding this service.</p> <p>Key findings:</p> <ul style="list-style-type: none"> The guidance in place did not provide sufficient detail in some areas, including the need to liaise with the adults' service, scenarios outlining when to contact the Local Ambulance Service and the instances when the action to be taken is discretionary and how this should be documented The training matrix did not clearly record the training to be undertaken by each role and the staff members who had completed / were yet to complete the training The exceptions performance monitoring reports did not detail the action to be taken to address non-conformance.
Customer services channel shift	1	-	-	Moderate	Moderate	<p>Purpose of audit: to review the progress of the customer access strategy and ensure controls are in place to develop the five- point plan, monitor progress and delivery of services and to ensure potential savings are being realised.</p> <p>High priority finding:</p> <ul style="list-style-type: none"> Council-wide resource plans were not in place to ensure the availability of staff within the transitioning services as well as the digital delivery team. The digital road map (channel shift action plan) did not accurately reflect the priorities of the council as a whole. There was no analysis of online feedback currently undertaken to identify poor service that may impact on customers' choice of contact methods.

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and High Priority Findings
	H	M	L	Design	Operational Effectiveness	
Data protection / GDPR	-	1	-	Substantial	Moderate	Purpose of audit: to provide assurance over the compliance with the new regulations across the council's departments, with a focus on data owners' responsibilities.
Estates cleaning and grounds maintenance	2	2	1	Limited	Limited	<p>The purpose of this audit was to provide assurance over the operational effectiveness of the estates cleaning and grounds maintenance service, including whether they are achieving their objectives and have suitable monitoring arrangements in place.</p> <p>High priority findings:</p> <ul style="list-style-type: none"> The service level agreement was out of date, it covered the period from 1 April 2013 to 31 March 2014. Both integrated cleaning and grounds maintenance service (ICC) and the housing department were in agreement that the SLA needs to be updated. Service specifications were repetitive and not aligned to appropriate and measurable performance targets, meaning performance cannot and has not been effectively monitored. The evidence provided relating to the monitoring of the SLA was inadequate and there was a lack of response by the housing department to the complaints raised and services requested, by the housing department. The SLA delegated the overarching responsibility of contract monitoring to the council's housing department.
General Ledger	-	2	3	Substantial	Moderate	Purpose of audit: to provide assurance over the controls in place regarding the council's general ledger, taking into account the upgrade to SAP.
Health and safety (draft report)	2	1	-	Limited	Limited	<p>Purpose of audit: to review the council's compliance with best practice with regards to health and safety inspections on fire risks across the council property portfolio (including offices, libraries, porta cabins, schools, anchor care homes, supported living properties.)</p> <p>High priority findings:</p> <ul style="list-style-type: none"> The property listing did not clearly outline which properties the council would not be responsible for, such as voluntary aided schools and academies. For those properties which the council is landlord, the

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and High Priority Findings
	H	M	L	Design	Operational Effectiveness	
						<p>responsibilities based upon the lease agreements were not documented in a central database. This means responsibilities could only be determined through the review of individual agreements.</p> <ul style="list-style-type: none"> Fire risk assessments were not undertaken within agreed timeframes and there was no documented risk rating for those properties managed by departments, to determine the frequency with which fire risk assessments should be completed. There was an inconsistent approach to fire safety inspections being undertaken, how these were documented and how issues were reported, escalated and followed up.
Housing benefits and universal credit	-	2	5	Moderate	Moderate	<p>Purpose of audit: to provide assurance on the continuing adequacy of the design and operational effectiveness of internal controls, processes and records in place to mitigate the identified risks relating to housing benefit and universal credit.</p>
Housing rents and universal credit	1	6	3	Moderate	Moderate	<p>Purpose of audit: to provide assurance on the controls in place to accurately collect and allocate rental income.</p> <p>High priority finding:</p> <ul style="list-style-type: none"> Arrears were not reviewed and actioned regularly.
Housing solutions-applications and allocations	-	3	-	Moderate	Moderate	<p>Purpose of audit: to provide assurance over the allocation of housing, including the application of the council's allocation policy and waiting list management.</p>
IT change controls	-	3	-	Moderate	Limited	<p>Purpose of audit: to assess the adequacy of the design and effectiveness of the controls in place for IT change management for all activities within the scope of the SICTS delivered to and on behalf of Southwark and those managed by the LBS applications function.</p>
IT shared services (draft report)	3	-	-	N/A - Advisory		<p>Purpose of review: to consider whether sufficient progress has been made, or actions are in train, to address the strategic issues identified in the reviews as captured in the service improvement plan.</p> <p>High priority findings:</p>

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and High Priority Findings
	H	M	L	Design	Operational Effectiveness	
						<ul style="list-style-type: none"> It is not evident how the change from a Service Improvement Plan to a Continuous Service Improvement Plan will address the key issues and failings of the Shared Services in a timely manner. The IT heads and service departments did not have an input in the change in approach and prioritisation of projects and there has been inadequate communication of the plan and its progress by SICTS We did not receive a plan documenting projects for the short, medium and long term. The documentation we received did not list any projects planned for beyond March 2019. There is insufficient documentation of the project owners, target dates and metrics and of the short, medium and long term planned projects and expected outcomes Governance arrangements for the CSIP have not been formally agreed and documented. The current reporting arrangements do not allow for adequate oversight and reporting of progress. The theme owners report to the Interim Service Improvement manager but there is no further reporting arrangements in place. The report to the Joint Management Board is a high level overview of projects completed and planned but gives no context on progress against initial target dates, on projects that have been delayed and the issues and problems they might have faced, actions taken and revised deadlines.
Legal fees	-	2	-	Moderate	Moderate	Purpose of audit: to provide assurance on the control framework in place for managing and recharging legal fees for children's services legal cases.
Markets	-	4	1	Moderate	Moderate	Purpose of audit: to provide assurance over the controls in place for the management of markets, particularly relating to income collection.
Members' allowances	-	-	3	Substantial	Substantial	Purpose of audit: to review the current controls over the payment of allowances and claims to ensure they are in line with the member's allowances scheme for the relevant year and that budget monitoring is being undertaken as part of the financial controls.
Modernisation programme	1	4	-	N/A - Advisory Review		Purpose of review: to provide advice over the governance and operational management of the programme, including consideration of the extent to which the programme is delivering against its objectives.

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and High Priority Findings
	H	M	L	Design	Operational Effectiveness	
						<p>High priority finding:</p> <ul style="list-style-type: none"> The project benefits were not distinct from objectives and they are not articulated in a way that assists with their measurement and evaluation. No clear plans were in place about how realised benefit will be measured and evaluated against the initial plans.
Mosaic operational audit / payments	1	1	-	Moderate	Limited	<p>Purpose of audit: to provide assurance over arrangements for recording, approving and processing social care packages within Mosaic, such that only valid and accurate amounts are generated for processing and payment.</p> <p>High priority finding:</p> <ul style="list-style-type: none"> The workflow report highlighted several inconsistencies in the sampled client records including incomplete workflows and key information missing, such as workflow approvals, service start and end dates, workflow task IDs and evidence of annual review. Testing identified: <ul style="list-style-type: none"> 29/50 client records had workflow approvals missing 2/50 client records had no workflow information available 6/50 care plans were not on Mosaic 6/50 care plans had not been subject to an annual review 6/50 financial assessment had not been subject to an annual review. The Mosaic systems and support team advised that the missing approvals would either be an e-mail from a team manager or on a paper version of a panel sheet, and that they would have been loaded in the CareStore document management system. The only way to verify these records would be to check the care store for each individual case or contact the relevant social worker to check for e-mails if they have not been loaded into CareStore. As the primary database for social care records, Mosaic does not hold all pertinent records for current cases.

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and High Priority Findings
	H	M	L	Design	Operational Effectiveness	
Music service	-	4	2	Moderate	Moderate	Purpose of audit: to provide assurance over how effectively the music service is operating, including the use of grant funding and the recording of equipment.
National non-domestic rates	1	3	1	Moderate	Moderate	<p>Purpose of audit: to provide assurance on the continuing adequacy of the design and operational effectiveness of internal controls, processes and records in place to mitigate the identified risks relating to the collection of national non domestic rates.</p> <p>High priority finding:</p> <ul style="list-style-type: none"> When awarding relief and exemption to rates, there was no evidence of application forms, charity registration, inspections, and approval for some of the cases reviewed, where this is a requirement according to the Council's guidance.
Parking management	-	3	3	Moderate	Moderate	Purpose of audit: to provide assurance over the control framework for the management of the collection of car parking fees and debt management.
Payroll	-	4	3	Substantial	Moderate	Purpose of audit: 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 expenses.
Placements - children in care service	1	3	-	Moderate	Limited	<p>Purpose of audit: to review the current process and controls on placing children in residential care, including commissioning, approval and financial monitoring and reporting.</p> <p>Key findings:</p> <ul style="list-style-type: none"> Insufficient evidence to confirm that the Brokerage Team always attempts to negotiate lower package costs consistently, and anomalies were identified between negotiated costs and actual costs being paid. In two cases of ten tested, the council was paying costs greater than those negotiated and in one of these cases the variance was £1000 a week.
Public health - health in all policies	-	3	-	Moderate	Moderate	Purpose of audit: to provide assurance over the adequacy and effectiveness of the new delivery mechanisms in this area via the integration of health and wellbeing policies.

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and High Priority Findings
	H	M	L	Design	Operational Effectiveness	
Right to buy &	-	-	4	Moderate	Moderate	Purpose of audit: to provide assurance over the control framework in place for processing Right to Buy applications and ad-hoc sales to ensure there is effective administration of operational and financial processes. High priority finding: <ul style="list-style-type: none"> Regarding the ad-hoc sales, no record of available-for-sale assets could be provided and there was a lack of clarity around which team would have the responsibility to maintain and update this record. This has contributed to significant delays in the sale of assets by the council.
Ad hoc sales	1	1	-	Limited	Limited	
Repairs and maintenance	-	4	-	Moderate	Moderate	Purpose of audit: to provide assurance over the controls over expenditure on the housing repairs and maintenance service and assurance that service objectives are being met and performance issues addressed.
Safeguarding - adults	-	3	1	Substantial	Moderate	Purpose of audit: to provide assurance over the controls in place to ensure that adults who are entitled to statutory safeguarding provisions are properly safeguarded and statutory requirements are met.
Sheltered Housing	-	1	4	Substantial	Moderate	Purpose of audit: to assess whether the control framework and governance structure relating to sheltered housing is effective and efficient. The review also considered whether the current process for calculating service charges is effective and ensures the council is recouping all income due to fund the service.
Southwark building services (draft report)	-	3	-	Moderate	Moderate	Purpose of audit: to provide assurance relating to the transfer back in house of the maintenance service for the council, including confirming whether all actions per the project plan have been implemented and that the new control framework is adequate and effective.

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and High Priority Findings
	H	M	L	Design	Operational Effectiveness	
Tenancy management organisation - Browning	-	4	1	Moderate	Moderate	Purpose of TMO audits: to provide assurance over the control framework in place at the TMO to ensure there is effective administration of operational and financial processes.
Tenancy management organisation - Haddenhall	2	5	5	Limited	Moderate	High priority findings: <ul style="list-style-type: none"> Purchases were being made by officers who do not have an authorised purchase limit, purchases are not approved and purchase orders are not used. The financial regulations did not include clear guidelines for higher value purchases and the tender process. The TMO did not have evidence of direct debit mandates or who has set them up, and transactions have been made on old/expired cards.
Tenancy management organisation - Two Towers	2	6	5	Limited	Limited	High priority findings: <ul style="list-style-type: none"> Budget monitoring was not carried out sufficiently or discussed within committee meetings. Purchase orders were not raised and repair orders did not identify who has raised the repair, therefore orders may be raised by those who are not authorised to place orders/repairs. Orders were also not approved.
Waste contract/ PFI	1	-	2	Moderate	Moderate	Purpose of audit: to provide assurance over the contract and financial management arrangements on the PFI. High priority finding: <ul style="list-style-type: none"> Errors were identified in the invoice checking spreadsheet relating to royalties and performance deductions, however it was determined that these were immaterial in respect of the contract as a whole. The incidents report could not be reconciled to the monthly performance deductions due to checks not being documented.
Youth and Play	2	2	0	Moderate	Limited	Purpose of audit: to provide assurance over the operational management controls in place within the youth and play services. High priority findings:

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and High Priority Findings
	H	M	L	Design	Operational Effectiveness	
						<ul style="list-style-type: none"> VAT was inconsistently charged and there was a lack of clarity regarding the expected VAT treatment on invoices to service users Errors were identified in the bookings log, payments were not collected in a timely manner and sessions for the hiring of facilities were cancelled without appropriate authorisation

REVIEW OF 2018/19 SCHOOLS AUDITS

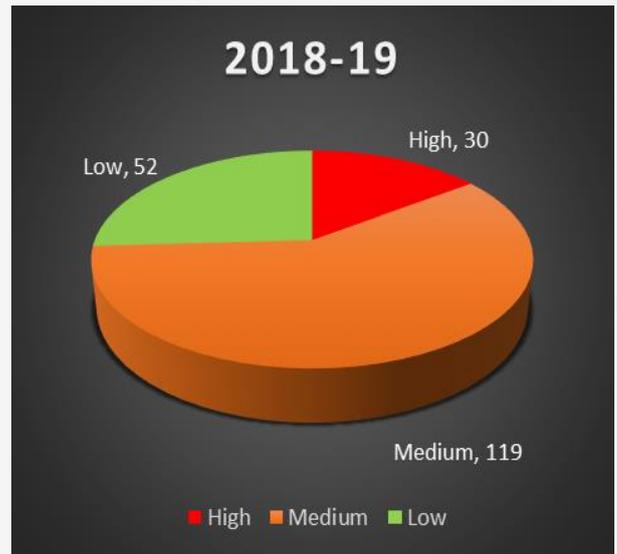
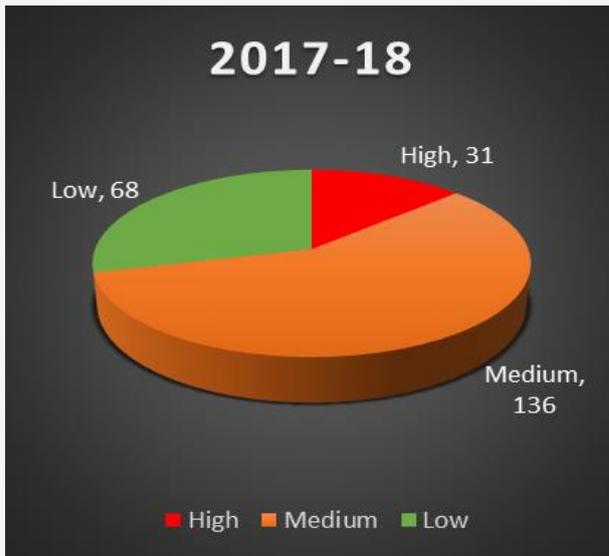
School	Status	Design	Operational Effectiveness
Ann Bernadt Nursery School	Final Report	Limited	Limited
Dulwich Wood Nursery	Final Report	Moderate	Moderate
John Ruskin Primary School	Final Report	Moderate	Moderate
English Martyrs' Catholic Primary School	Final Report	Substantial	Moderate
Highshore School	Final Report	Moderate	Moderate
Dog Kennel Hill Primary School	Final Report	Moderate	Moderate
Bellenden Primary School	Final Report	Limited	Moderate
Beormund Primary School	Final Report	Substantial	Moderate
Bethlem & Maudsley Hospital School	Final Report	Substantial	Substantial
St James the Great Roman Catholic Primary School	Final Report	Substantial	Moderate
Nell Gwynn Nursery School	Final Report	Moderate	Limited
Cherry Garden School	Final Report	Moderate	Limited
St Anthony's Catholic Primary School	Final Report	Substantial	Substantial
Albion Primary School	Final Report	Moderate	Moderate

School	Status	Design	Operational Effectiveness
Bessemer Grange	Draft Report	No	No
Kintore Way Nursery School and Children's Centre	Final Report	Moderate	Moderate
Notre Dame Roman Catholic Girls School	Final Report	Substantial	Moderate
Lyndhurst Primary School	Final Report	Moderate	Limited
St George's Church of England Primary School	Final Report	Limited	Limited
Charles Dickens School	Final Report	Moderate	Limited
Dulwich Village Church of England Infants' School	Final Report	Substantial	Moderate
Michael Faraday	Final Report	Moderate	Limited
Oliver Goldsmiths	Draft Report	Moderate	Moderate
St Peter's Walworth Church of England Primary School	Draft Report	Moderate	Limited
St Joseph's Roman Catholic Primary School	Draft Report	Moderate	Limited
St Jude's Church of England Primary School	Draft Report	Limited	Limited

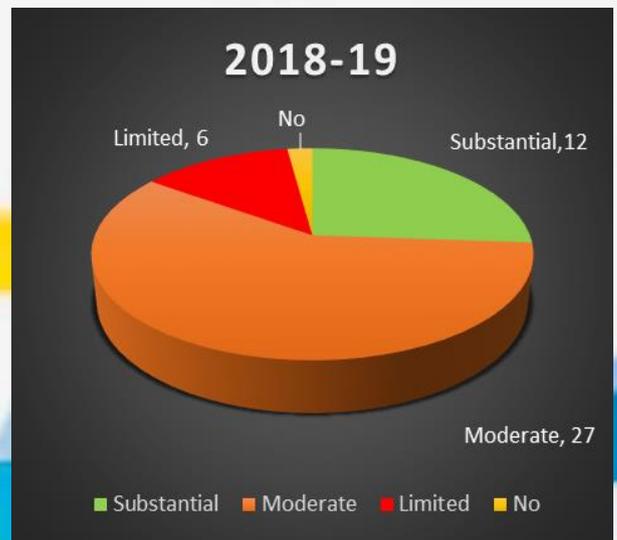
SUMMARY OF FINDINGS

RECOMMENDATIONS AND ASSURANCE DASHBOARD

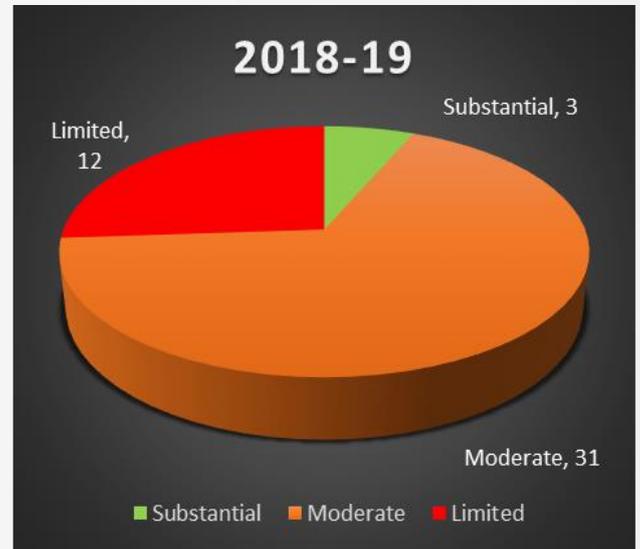
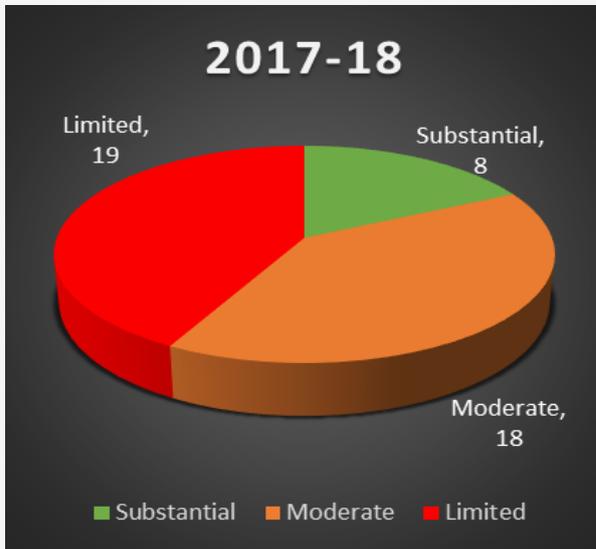
Recommendations and Significance



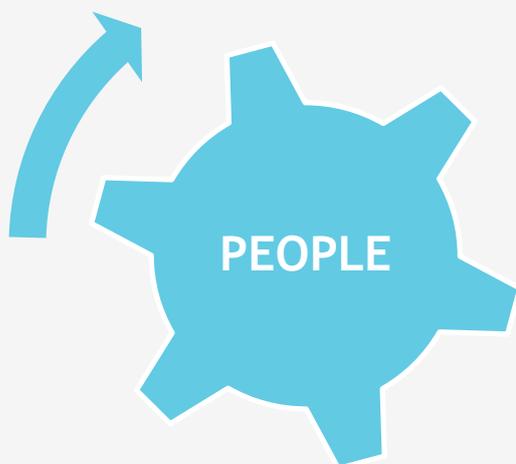
Control Design



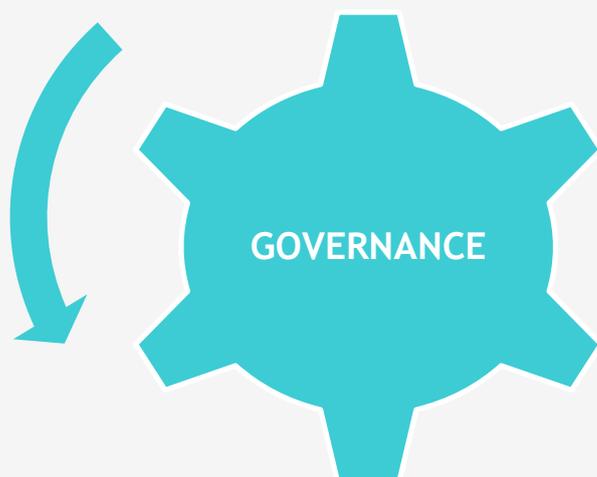
Operational Effectiveness



COMMON THEMES



- Whilst clarity of roles and responsibilities was evident in the majority of areas reviewed, sufficient guidance detailing the Council's expectations from its staff was missing in some areas, e.g. Access To Secure Housing Estates, BCP, Contact Centre, Estates Cleaning And Grounds Maintenance.
- Although policies and procedures were in place for most of the activities reviewed, they were either absent or out of date in some cases, e.g. BCP, Housing Solutions-Applications and Allocations.
- Trainings to help staff perform their duties effectively were not provided/ managed effectively in all cases, e.g. Community Council Manual Cheques (lack of training on cheque payment process), Estates Cleaning (lack of training on monthly inspections) and Contact Centre (lack of a training matrix).



- Governance and reporting requirements were found to be well defined and understood through our audits, however, there were gaps within some areas, e.g. Right to Buy & Ad Hoc Sales, Tenancy Management Organisations
- Monitoring of the progress of projects and activities could be enhanced by ensuring that complete information is recorded and reported to decision-makers, such as in case Adult Day Care Provision, Estates Cleaning and Grounds Maintenance and Parking Management.



- Although guidance documents were in place for most of the processes to be followed, they were missing for some of the activities covered under areas audited, e.g. Access to Secure Housing Estates, BCP and Markets.
 - Whilst in the main we found the control framework to be well-designed, however, inconsistent application of controls was evidenced in some areas, e.g. Accounts Payable, CHAPS Payments, Commercial Waste.
-

ADDED VALUE



USE OF SPECIALISTS

We continued to use our IT specialists to deliver the IT audit plan.



RESPONSIVENESS

We have been able to be flexible with the plan to respond to emerging risks and concerns (e.g. access to housing estates, CHAPS and procurement).



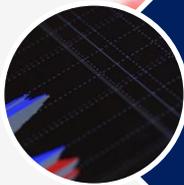
BENCHMARKING AND BEST PRACTICE

We undertook benchmarking in 14 audits to compare the council's practices with other London boroughs (e.g. adult day care provision, commercial waste, health and safety, housing applications and allocations, members' allowances and public health).

We identified where the council could potentially be more commercial (e.g. adult day care, waste contract PFI and youth service)

Best practice comparisons were undertaken (e.g. business continuity and data protection / GDPR)

Staff surveys were used in five audits (e.g. business continuity planning and customer services channel shift).



INNOVATION

We utilised data analytics in nine audits, including key financial systems e.g. accounts payable, housing benefits, non domestic rates and payroll), ad hoc requests for work (e.g. CHAPS and chargebacks) and operational areas (e.g. commissioning for social care and safeguarding).

We have developed process maps in audits to highlight key risks and highlight control weaknesses (e.g. CHAPS, sheltered housing)



BACKGROUND TO ANNUAL OPINION

Introduction

Our role as internal auditors to London Borough of Southwark is to provide the Audit, Governance and Standards Committee, and the Director with an opinion on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. Our approach, as set out in the firm's Internal Audit Manual, is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Our internal audit work for the 12 month period from 1 April 2018 to 31 March 2019 was carried out in accordance with the internal audit plan approved by management and the Audit, Governance and Standards Committee, adjusted during the year for any emerging risk issues. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

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 our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period.

Scope and Approach

Audit Approach

We have reviewed the control policies and procedures employed London Borough of Southwark to manage risks in business areas identified by management set out in the 2018-19 Internal Audit Annual Plan approved by the Audit, Governance and Standards Committee. This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the organisation. Our approach complies with best professional practice, in particular, Public Sector Internal Audit Standards, the Chartered Institute of Internal Auditors' Position Statement on Risk Based Internal Auditing.

We discharge our role, as detailed within the audit planning documents agreed with London Borough of Southwark management for each review, by:

- Considering the risks that have been identified by management as being associated with the processes under review
- Reviewing the written policies and procedures and holding discussions with management to identify process controls
- Evaluating the risk management activities and controls established by management to address the risks it is seeking to manage
- Performing walkthrough tests to determine whether the expected risk management activities and controls are in place
- Performing compliance tests (where appropriate) to determine that the risk management activities and controls have operated as expected during the period.

Audit Opinion

The opinion provided on page 4 of this report is based on historical information and the projection of any information or conclusions contained in our opinion to any future periods is subject to the risk that changes may alter its validity.

Reporting Mechanisms and Practices

Our initial draft reports are sent to the key officer responsible for the area under review in order to gather management responses. In every instance there is an opportunity to discuss the draft report in detail. Therefore, any issues or concerns can be discussed with management before finalisation of the reports.

Our method of operating with the Audit, Governance and Standards Committee is to agree reports with management and then present and discuss the matters arising the Audit, Governance and Standards Committee meetings.

Management actions on our recommendations

Management have generally been conscientious in reviewing and commenting on our reports. For the reports which have been finalised, management have responded positively. The responses indicate that appropriate steps to implement our recommendations are expected.

Recommendations follow-up

Implementation of recommendations is a key determinant of our annual opinion. If recommendations are not implemented in a timely manner then weaknesses in control and governance frameworks will remain in place. Furthermore, an unwillingness or inability to implement recommendations reflects poorly on management's commitment to the maintenance of a robust control environment.

Relationship with external audit

Summaries of all our final reports are available to the external auditors through the Audit, Governance and Standards Committee papers and full reports are available on request. Our files are also available to external audit should they wish to review working papers to place reliance on the work of internal audit.

Report by BDO LLP to London Borough of Southwark

As the internal auditors of London Borough of Southwark we are required to provide the Audit, Governance and Standards Committee, and the Chief Officers Team with an opinion on the adequacy and effectiveness of risk management, governance and internal control processes, as well as arrangements to promote value for money.

In giving our opinion it should be noted that assurance can never be absolute. The internal audit service provides London Borough of Southwark with Moderate Assurance that there are no major weaknesses in the internal control system for the areas reviewed in 2018-19. Therefore, the statement of assurance is not a guarantee that all aspects of the internal control system are adequate and effective. The statement of assurance should confirm that, based on the evidence of the audits conducted, there are no signs of material weaknesses in the framework of control.

In assessing the level of assurance to be given, we have taken into account:

- All internal audits undertaken by BDO LLP during 2018-19
- Any follow-up action taken in respect of audits from previous periods for these audit areas
- Whether any significant recommendations have not been accepted by management and the consequent risks
- The effects of any significant changes in the organisation's objectives or systems
- Matters arising from previous internal audit reports to the Council.



KEY PERFORMANCE INDICATORS

Description	Target	Actual and comment	RAG Rating
Key Performance Indicators agreed in the Internal Audit Charter for 2018-19			
% of audits from the plan reported to the planned meeting of the audit, governance and standards committee (as per the approved terms of reference).	90%	74% This reflects 4 audits where the reporting has been delayed due to staff absence at BDO, 6 audits where management responses were not received by the committee reporting deadline and 2 audits where council staff asked for deferral of fieldwork due to staff availability.	●
% of high and medium rated recommendations implemented by the agreed management implementation date	75%	85% As reported in section 5 of this report.	●
% of recommendations in draft report accepted by audit sponsor / owner	90%	95%	●
% of draft reports issued within 15 working days of the audit closure meeting.	90%	91%	●
% of returned audit satisfaction survey forms achieving a score of 4 or 5 out of 5	75%	100% In respect of the audit reports finalised for 2018-19, we have received three completed surveys, two of which rated us as 4 and one which rated us as 5 out of 5.	●
Annual chief officer and audit, governance and standards satisfaction survey results	Average of 75% and above	The annual survey will be issued in July 2019	●
% of audits from the plan completed to draft report stage by 31 March 2019	100%	85% This relates to audits commenced in quarter 4, where fieldwork was ongoing during March and April. This was due to timing and staff availability at BDO and within the council	●

Professional standards and results of the peer review undertaken in 2018-19

We undertake to comply with the Public Sector Internal Audit Standards (PSIAS).

Standard 1312 of states that “External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation... External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation.”

In London, The London Audit Group has organised a system of peer review, with 32 of the 33 London Boroughs agreeing to take part. It has been agreed that self-assessments will be carried out and that these will be validated by suitably qualified individuals or teams from other members of the group across a 5 year cycle.

A peer review of the internal audit service provided to the council against the PSIAS has been undertaken during 2018-19 by the Head of Assurance and an Audit Manager from OneSource (who work on behalf of the London Borough of Bexley).

The review was based on the self-assessment conducted by the Engagement Partner and Chief Audit Executive, with evidence provided to support its conclusions. In addition, interviews were conducted with

some of internal audit's key stakeholders: The Director of Finance (CFO and S151 Officer and the BDO Engagement Partner. Also available were the results and analysis of customer questionnaires.

Their report concluded that:

- Based on the work carried out it can be confirmed that the internal audit function at the London Borough of Southwark generally conforms to the UK Public Sector Internal Audit Standards.
- As required, the outcome is reflected here in the Chief Audit Executive's annual opinion report for the year 2018-19.

The definition of generally conforms is "The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects.

- The IT provision at the London Borough of Southwark is a shared service, with Brent and Lewisham. Internal audit, across the three authorities, are in discussion with management and the ICT provider to determine and plan the ICT audits going forward, including audit allocation, cross cutting audit reviews and how assurance will provided to members.
- Some minor observations were made relating to: audit Execution - improved consistency of numbering of working papers on the electronic system, audit review points - consistency of the location of key sign offs through the quality assurance process and clarity over the final version of the test schedule on the file
- The conclusion reached from the customer questionnaires was that the Standing and Reputation of Internal Audit is generally positive. There were some best practice improvements suggested by some survey responses in the areas of ensuring recommendations are commercial and practical, ensuring adequacy of resources and skills, and demonstrating Internal Audit's influence on the organisation, which the Chief Audit Executive has agreed to consider.



APPENDIX 1

OPINION SIGNIFICANCE DEFINITION

Level of Assurance	Design Opinion	Findings from review	Effectiveness Opinion	Findings from review
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.



FOR MORE INFORMATION:

Greg Rubins
Partner, Public Sector

Greg.Rubins@bdo.co.uk

