



London Borough of Southwark

**INTERNAL AUDIT ANNUAL REPORT AND ANNUAL
STATEMENT OF ASSURANCE 2020-21 - DRAFT**

For presentation to the Audit, Governance and Standards Committee

2 June 2021



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SUMMARY OF 2020/21 WORK

Internal Audit 2020/21

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.

This is a draft annual report for 2020-21, as there are some audits not yet fully completed, we are aiming to complete all fieldwork by the end of May and issue final reports by 30 June 2021. An updated report will be presented to the meeting of the Audit, Governance and Standards Committee on 18 July 2021.

The reports that have been issued for financial year 2020-21, and which form the basis of the annual report for 2020-21 are listed below. These include the audits where fieldwork and reporting were necessarily carried forward from 2019-20 to 202-21 due to the Covid-19 pandemic.

Audits carried forward from 2019-20

- Building Control
- Foster Carers
- Housing Rents
- Payments to Children and Families
- Pest Control
- Supported accommodation hostels (family hostels)
- Tenancy management organisations - Fair Community Housing Services (draft - management response received)
- Tenancy management Organisations - Falcon Point (draft - management response received)
- Voids

Internal audit plan 2020-21

- Accounts Payable (reporting)
- Accounts Receivable/ Debt Management (draft)
- All age disability service - 0 to 24 years (reporting)
- Adoption Service (reporting)
- Anti- Facilitation of Tax Evasion (reporting)
- Bankline
- BUPA Overpayments (draft)
- Climate Emergency Strategy
- Community Infrastructure Levy
- Community Safety Partnerships
- Contracts Register (reporting)
- Corporate Credit Cards
- Customer Experience and Complaints
- Customer Experience Data Collection and Analysis
- Demolition Process (MSHO)
- Direct Payments
- Housing Applications
- Litigation Protocols
- Movement (Transport) Policy & Planning
- New Homes Programme
- Parks
- Payroll & HR (reporting)
- Pensions administration (Schools)
- SAP Scheme of Delegation and Authorisation (draft)
- School Admissions
- Software Asset Management
- South Dock Marina (reporting)
- Substance Misuse Rehabilitation Service
- Supported Living (draft)
- Travel Assistance (draft)
- Treasury Management (draft)
- Tree Management Service

The internal audit team has also completed the following work in 2020-21:

- Monthly audit of the Council's Troubled Families grant claims - a separate letter of engagement and management reports cover this work.
- Transparency reporting support - advisory work to support the Council in ensuring the accuracy of its publically reported data.

Due to the impact of the Covid-19 pandemic upon the Council, the internal audit plan for 2020-21 did not commence until 17 August 2021. At this time, the internal audit plan was revisited and the final programme for 2021-22 agreed. The work to be completed was based upon discussions held with management and was constructed in such a way as to gain a reasonable 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 following audits were deferred from 2020-21 to 2021-22:

- Borough Plan
- Cloud and Cyber Security
- Commercial Property Portfolio
- Continuing Healthcare
- Contract Management
- Emergency Planning
- Financial Planning & Budget Monitoring
- Fraud Controls
- Major Works
- NNDR
- Sickness Absence Management
- Soutwark Building Services
- Suspense Account Management
- Youth Offending Service & Youth Violence

The schools internal audit programme was also paused during 2020/21, with an emphasis upon concluding schools audits in progress when the first lockdown occurred in March to June 2020. A new programme of work has commenced from April 2021. A summary report will be presented to the Audit, Governance and Standards Committee at the meeting in September 2021.

For reports issued in final and draft, we have detailed the opinions for each audit and key findings on pages seven to 24.

Non internal audit services provided by BDO

The following non audit services have been provided by BDO during 2020-21:

- Risk management support
- Counter fraud support

The counter fraud work is delivered by our forensics team, which is separate to the public sector internal audit team that provides internal audit and risk management services to the Council.

We do not consider the work undertaken above to pose a threat to our independence or objectivity in delivering the internal audit services.

HEAD OF INTERNAL AUDIT OPINION 2020-21

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's 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, the same opinion as in 2019-20.

We consider this to be a positive result in light of Covid-19. There was a necessity for the Council to redeploy resources to manage the impact of the pandemic, implement new systems and controls, whilst at the same time maintaining business as usual for key services alongside keeping the back off functions running effectively.

Our annual report and head of internal audit opinion has been prepared based on the audit work undertaken during the year. In forming my view I have taken into account that:

- At the time of writing this draft annual report:
 - In respect of the design of the controls, an opinion of moderate assurance was provided for 20 out of the 30 assurance audits where reports have been issued, substantial assurance was provided in eight areas and limited assurance opinions in two areas. Overall, the Council has maintained its control environment during 2020-21.
 - In respect of the operational effectiveness of the controls, an opinion of moderate assurance was provided for 20 of the 30 assurance audits where reports have been issued, substantial assurance was provided in two areas and limited assurance in eight. The proportion of substantial and moderate assurance opinions has remained relatively constant between 2019-20 and 2020-21, following an overall previous year on year improvement since 2016-17.
- Management has responded positively to reports issued and action plans have been developed to address the recommendations raised.

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- We have confirmed that 76% of recommendations due for implementation by the date of reporting had been completed. This represents a decrease from an implementation rate of 88% in 2019-20, due to the continued impact on the implementation of recommendations due to Covid-19 and the adjustment of priorities and redeployment of staff to address this.
 - Financial performance: despite the costs of the pandemic, the Council has performed broadly in line with budget. The outturn report for 2020-21 presents a balanced position after movements to and from reserves and the application of £43.5m of general Covid-19 emergency funding. We recognise that the financial position at the end of 2020-21 is complex as the Council reconciles the additional costs and lost income with the funding support received from government and also looks to prioritise resources for the coming period of recovery. There has been a significant increase in reserves, however, most of these are not available to support the provision of services but must be carried forward to cover losses arising from business rate and council tax collection in 2020-21 that will be charged to the General Fund Balance in future years.

REVIEW OF 2020-21 WORK

| Report issued | Number of recommendations | | | Internal Audit Assurance Opinions | | Purpose of Audit and Key Findings |
|------------------|---------------------------|---|---|-----------------------------------|---------------------------|--|
| | H | M | L | Design | Operational Effectiveness | |
| Building Control | - | 3 | - | Moderate | Moderate | <p>Purpose of audit: to review the adequacy and effectiveness of the council's controls and approach to the delivery of the building control service.</p> <p>Key findings:</p> <ul style="list-style-type: none"> No procedure notes for IDOX covering the processes for reviewing and recording cases, similar to the procedure notes in place for the Acolaid system. A number of exceptions were identified in the effectiveness of the Council's processes and controls with regards to ensuring compliance with building control regulations. Out of a sample of 15 applications, we identified: <ul style="list-style-type: none"> Due to system migration issues, the service is having difficulties in allocating and managing available resources against projects We have also observed that as a result of lack of funding, enforcement action is not being taken in some cases. The council is developing a plan to address this. |
| Foster Carers | - | 3 | 1 | Moderate | Moderate | <p>Purpose of audit: to provide assurance on the appointment and payment of foster carers and how the Council ensures that foster carers meet the council's initial and ongoing requirements</p> <p>Key findings:</p> <ul style="list-style-type: none"> Foster carer's training and development plans were not recorded within Mosaic and did not record whether it was compliant with Training, Support and Development Standards (TSD) Sample testing identified 23 overpayments from 2019/20 totaling £23,700 |

| Report issued | Number of recommendations | | | Internal Audit Assurance Opinions | | Purpose of Audit and Key Findings |
|-----------------------------------|---------------------------|---|---|-----------------------------------|---------------------------|---|
| | H | M | L | Design | Operational Effectiveness | |
| Housing Rents | - | 2 | 2 | N/A | | <p>The internal audit was not completed in full due to Covid-19. We report here findings and recommendations identified from the risks identified and reduced scope. A full audit will be completed as part of the approved 2020-21 internal audit plan.</p> <p>Purpose of audit: to provide assurance on the controls in place to accurately collect and allocate rental income.</p> <p>Key findings:</p> <ul style="list-style-type: none"> Unable to confirm whom completed the monthly finance reconciliations and monthly stock reconciliations were undertaken but were unable to confirm whom had reviewed this documentation. Delays in refunds being paid and a small number of arrears where there was insufficient information on file outlining what steps had been taken to recover the arrears. |
| Payments to Children and Families | 1 | 2 | - | Moderate | Limited | <p>Purpose of audit: to provide a review of the controls for monies paid to children and families, including authorisation, records management and reconciliation</p> <p>Key findings:</p> <ul style="list-style-type: none"> Staff travel and expense cards were not issued correctly and documentation was not available for these cards and instant issue cards. Lack of evidence that instant issue cards were used appropriately by client cardholders and spend is not being checked to verify validity of expenditure. |
| Pest Control | - | - | 2 | Substantial | Moderate | <p>Purpose of audit: to review the adequacy and effectiveness of the contract management arrangements, delivery against KPI's and the extent to which income generated is meeting the Council's expectations.</p> |

| Report issued | Number of recommendations | | | Internal Audit Assurance Opinions | | Purpose of Audit and Key Findings |
|--|---------------------------|---|---|-----------------------------------|---------------------------|---|
| | H | M | L | Design | Operational Effectiveness | |
| | | | | | | <p>Key findings:</p> <ul style="list-style-type: none"> A minor discrepancy in the reporting of a monthly customer satisfaction value and the satisfaction surveys did not record who completed the job. |
| Supported Accommodation - Family Hostels | 2 | 1 | - | Moderate | Limited | <p>Purpose of audit: to provide a review against operational procedures, how cases are managed, including new cases, a check of current governance arrangements, income collection, record keeping, security checks, inspections and repairs and maintenance regimes. We also considered actions implemented following the independent service model review commissioned in 2017.</p> <p>Key findings:</p> <ul style="list-style-type: none"> Sample testing of accounts that had arrears recent action had not been taken as well as delays in actions being taken. Sample testing of 10 hostels identified two hostels where there was no evidence of quarterly quality audits had been completed. In addition there were delays in health and safety checks being signed off by the hostel manager and the Council were unable to locate the documentation for the corresponding repairs raised. Tenancies were not signed and inadequate monitoring and documentation has not been retained in relation to tenancy checks. |
| Tenancy Management Organisations - Fair Community Housing Services <i>Draft Report - Management</i> | 2 | 6 | - | Moderate | Limited | <p>Purpose of audit: to provide assurance over the control framework in place at the TMO to ensure there is effective administration of operational and financial process, including the controls around statutory compliance.</p> <p>Key findings:</p> <ul style="list-style-type: none"> The annual budget was not finalised and signed off by the Council and appropriate committee members in advance of the financial year start |

| Report issued | Number of recommendations | | | Internal Audit Assurance Opinions | | Purpose of Audit and Key Findings |
|---|---------------------------|---|---|-----------------------------------|---------------------------|--|
| | H | M | L | Design | Operational Effectiveness | |
| <i>Response received 24 May 2021</i> | | | | | | <ul style="list-style-type: none"> Budget monitoring is not being carried out on a monthly basis and is not discussed at Management Committee meetings Seven out of ten purchases tested did not have a purchase order and one was approved by an unauthorised Officer, two invoices were paid late, one petty cash slip was claimed and approved for payment by the same person, and not all direct debits have mandates signed by two signatories There is no formal process to ensure that all policies and procedures are reviewed periodically. Equal Opportunities policy and finance procedures are not reviewed regularly, the financial procedures have not been reviewed since September 2006. Business interests were not declared by all committee members New rent accounts are being created and approved by the same person and overpayments to the rent account are not refunded on a timely basis. |
| Tenancy Management Organisations - Falcon Point <i>Draft Report - management response received 24 May 2021</i> | 4 | 1 | 2 | Limited | Limited | Purpose of audit: to provide assurance over the control framework in place at the TMO to ensure there is effective administration of operational and financial process, including the controls around statutory compliance. Key findings: <ul style="list-style-type: none"> Actions to limit the effects of fire risks were not being implemented. There have been 38 risks identified but no actions to address these. Management Committee terms of reference were not current, approved or reviewed on a regular basis and the Equal Opportunity Policy is not current There was no formal lettings policy and one property was let after the deadline of 28 days, without explanation Bank reconciliations are evidenced quarterly rather than monthly- |

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| | H | M | L | Design | Operational Effectiveness | |
| | | | | | | <ul style="list-style-type: none"> Purchases, cheque payments and petty cash function were not operating according to finance procedures' guidelines (eg petty cash was held above the stated limits and a payment was authorised above the delegated level); direct debits did not have mandates. |
| Voids | 1 | 1 | - | Moderate | Moderate | <p>Purpose of audit: to provide assurance relating to controls over housing voids and timeliness of action to enable the re-letting of the property, including remedial works and checks.</p> <p>Key findings:</p> <ul style="list-style-type: none"> Key safes installed for void properties used a standard code for all types of the same accommodation Issues within the timeliness of addressing voids and undertaking the notification process resulting in delays. |
| Accounts Payable <i>Reporting in progress</i> | | | | TBC | TBC | <p>Purpose of audit: to provide continuing assurance on the adequacy of the design and operational effectiveness of internal controls in managing accounts payable processed via SAP, to ensure that they are promptly and effectively brought into use. We will also review the timeliness of payments to suppliers and the extent to which the 30 day payment terms are being met. We will determine the reasons where delays in payment are evident.</p> <p>Key findings:</p> <ul style="list-style-type: none"> To be confirmed - reporting in progress |
| Accounts Receivable/Debt Management <i>Reporting in progress</i> | | | | TBC | TBC | <p>Purpose of audit: to provide assurance on the arrangements to manage income processed via SAP (both by FC&P and other departments) to ensure that they are promptly and accurately collecting and recording income as well as debt recovery.</p> <p>Key findings:</p> <ul style="list-style-type: none"> To be confirmed - reporting in progress |

| Report issued | Number of recommendations | | | Internal Audit Assurance Opinions | | Purpose of Audit and Key Findings |
|--|---------------------------|---|---|-----------------------------------|---------------------------|---|
| | H | M | L | Design | Operational Effectiveness | |
| All Age Disability <i>Reporting in progress</i> | | | | TBC | TBC | <p>Purpose of audit: to review the adequacy and operational effectiveness of the control framework in place for the identification and documentation of care needs and the associated approval, allocation and monitoring of funding.</p> <p>Key findings:</p> <ul style="list-style-type: none"> To be confirmed - reporting in progress |
| Adoption Service <i>Reporting in progress</i> | | | | TBC | TBC | <p>Purpose of audit: to review the adequacy and effectiveness of the controls in place over payments made to adopters, to confirm accuracy of payments derived from documentation and appropriate approvals.</p> <p>Key findings:</p> <ul style="list-style-type: none"> To be confirmed - reporting in progress |
| Anti Facilitation of Tax Evasion <i>Reporting in progress</i> | | | | TBC | TBC | <p>Purpose of audit: to review the controls in place to identify, report and record suspected tax evasion to ensure the Council is able to mitigate the risk of facilitating tax evasion.</p> <p>Key findings:</p> <ul style="list-style-type: none"> To be confirmed - reporting in progress |
| Bank Line | - | 3 | - | Moderate | Moderate | <p>Purpose of audit: to review the processes and control framework in place for making payments via Bankline to ensure officers are appropriately trained and that payments are made based on requests with full supporting evidence and are authorised in accordance with the Council's authorisation schemes.</p> <p>Key findings:</p> <ul style="list-style-type: none"> A small number of Bankline users access was not removed when staff resign. Testing identified payment forms were not always completed to confirm payment processing information including who processed |

| Report issued | Number of recommendations | | | Internal Audit Assurance Opinions | | Purpose of Audit and Key Findings |
|---|---------------------------|---|---|-----------------------------------|---------------------------|---|
| | H | M | L | Design | Operational Effectiveness | |
| | | | | | | <p>it and when these were recorded onto the general ledger and SAP.</p> <ul style="list-style-type: none"> Survey results identified some staff inconsistencies and lack of awareness of the correct procedures to follow when requesting payments via Bankline. |
| <p>BUPA Overpayments <i>Draft Advisory Report</i></p> | 7 | 1 | - | N/A (Advisory) | N/A (Advisory) | <p>Purpose of audit: to support the Council in establishing an accurate funding situation and to ensure that the correct fees are paid and that the over-payment is refunded. The review will focus primarily on Collingwood and Havelock, but be cognisant that a wider issue may be present with regards to the procedures and controls over the generation of payments to Bupa. This has been an iterative exercise, with Internal Audit working in collaboration with the Council's Finance, FC&P, CBS and Mosaic Systems Support teams to understand the designed controls and local processes in place, to support the analysis of data held.</p> <p>Key observations:</p> <ul style="list-style-type: none"> Identified some significant gaps in the system of controls in place relating to payment processing from Mosaic system. There are currently no controls in place to monitor these potential overpayments or ongoing regular payments as the CAS Finance teams are not monitoring the accuracy of information held in Mosaic as they neither have the access or the training of Mosaic system. The Mosaic Scheme of Delegation was non-compliant with the department Schemes of Management and Council's Standing Financial Instructions and the POs are being approved by individuals amounts, over their monetary limit allocated. Significant overpayments were identified out of which some have been reclaimed back, however there were further overpayments that need to be reclaimed back. |

| Report issued | Number of recommendations | | | Internal Audit Assurance Opinions | | Purpose of Audit and Key Findings |
|--|---------------------------|---|---|-----------------------------------|---------------------------|--|
| | H | M | L | Design | Operational Effectiveness | |
| Climate Emergency Strategy <i>Draft Advisory Report</i> | - | 4 | - | N/A (Advisory) | N/A (Advisory) | <p>Purpose of audit: advisory review of the Council's planned governance arrangements over the implementation of the council's climate emergency strategy, adequacy of stakeholder engagement and the achievability of the plans in place to deliver the strategy.</p> <p>Key observations:</p> <ul style="list-style-type: none"> A number of draft climate emergency strategies were written during 2020, which have been hindered in terms of engagement with the members of the public due to the Covid-19 pandemic. The Council has not yet developed a communications plans or a risk register to support the successful implementation of the Strategy There were synergies between initiatives in the Transport and the Movement Plan but these have not been harnessed so far although they have the same lead cabinet member. |
| Community Infrastructure Levy | - | 1 | - | Substantial | Moderate | <p>Purpose of audit: to provide assurance over the adequacy and effectiveness of current controls over the Community Infrastructure Levy (CIL) and the Mayoral Community Infrastructure Levy (MCIL) and provide advice on improvements as necessary.</p> <p>Key findings:</p> <ul style="list-style-type: none"> Sample testing identified small number of exceptions of non-compliance with procedures and controls found in the calculation of net chargeable area and corresponding CIL liability. |
| Community Safety Partnership | - | - | - | Substantial | Moderate | <p>Purpose of audit: to review the strategic framework, governance framework and financial framework relating to the Council's community safety partnership service.</p> <ul style="list-style-type: none"> No exceptions were identified. We concluded moderate assurance for control effectiveness, as three of the funding areas were marked as amber and were behind |

| Report issued | Number of recommendations | | | Internal Audit Assurance Opinions | | Purpose of Audit and Key Findings |
|--|---------------------------|---|---|-----------------------------------|---------------------------|---|
| | H | M | L | Design | Operational Effectiveness | |
| | | | | | | target. |
| Contracts Register <i>Reporting in progress</i> | | | | TBC | TBC | <p>Purpose of audit: to review the adequacy and effectiveness of the control framework over the completeness and accuracy of the Council's contract register, including the extent to which contract leads are keeping information up to date so that the version published via the Council's external website is complete. We will also review contract expenditure incurred against contracts, and confirm that the original contract value has not been exceeded (or an approved variation is in place) and that goods / services outside the original scope have not been purchased under the contract.</p> <p>Key findings:</p> <ul style="list-style-type: none"> To be confirmed - reporting in progress |
| Corporate Credit Cards | - | 4 | - | Moderate | Limited | <p>Purpose of audit: to review the controls over credit cards issued to employees of the Council, and departmental approval, monitoring and review of expenditure incurred using credit cards.</p> <p>Key findings:</p> <ul style="list-style-type: none"> For the majority of credit cardholders selected a formal review of the use of the credit card had not been undertaken or evidenced. The departmental scheme of management did not match with the cardholder's credit and transactional limits and for some cardholders the transactional limits were not recorded on the departmental scheme of management. Credit card reconciliation statements are not being signed by the cardholder or an independent reviewer. Where the reconciliations were signed we were unable to confirm whether they were completed within a timely manner. Updated records not being maintained by the Corporate Banking and Control Team, signed employee declaration forms are not being retained and cost codes to be debited per the employee |

| Report issued | Number of recommendations | | | Internal Audit Assurance Opinions | | Purpose of Audit and Key Findings |
|--|---------------------------|---|---|-----------------------------------|---------------------------|--|
| | H | M | L | Design | Operational Effectiveness | |
| | | | | | | declaration forms not reconciling with the records maintained by Financial Control and Processing (FC&P) team. |
| Customer Experience & Complaints | - | 1 | 1 | Substantial | Moderate | <p>Purpose of audit: to review the complaints process and controls with regards to children's services and to confirm that the Council is adhering to legislative requirements under the Children Act.</p> <p>Key finding:</p> <ul style="list-style-type: none"> Sample testing identified a number of exceptions relating to the delays and time frames in the complaint management process. |
| Customer Experience - Data Collection and Analysis | - | 4 | - | N/A (Advisory) | N/A (Advisory) | <p>The objectives of the work were to:</p> <ol style="list-style-type: none"> Analyse the sources of data used and how these are translated into KPI reporting, the accuracy and completeness of that data. Analyse the methodology used by the Council, to confirm it can be replicated over time and the same figures arrived at if generated retrospectively Re-perform the reporting lines and Channel Shift Reports i.e. digital channels (emails, MySouthwark) versus traditional channels (such as face to face and telephone), to ensure they appropriately distinguish between digital and traditional channels and to ensure information from all workstreams have been included in the reports presented to the monitoring hierarchy. <p>Key observations:</p> <ul style="list-style-type: none"> We identified a number of reoccurring exceptions in testing of the procedures and sources of data. Presently the data could be understated in regards to phone, service points and email interactions or overstated relating to online e-forms. The Council was not targeting service areas or partners effectively to establish a plan of needs and priorities. The services have been targeted based upon volume and no information was available for at least 35 service areas out of the |

| Report issued | Number of recommendations | | | Internal Audit Assurance Opinions | | Purpose of Audit and Key Findings |
|---------------------------|---------------------------|---|---|-----------------------------------|---------------------------|---|
| | H | M | L | Design | Operational Effectiveness | |
| | | | | | | <p>44 identified services for digital or non-digital interactions with customers.</p> <ul style="list-style-type: none"> No data validation exercise was conducted to verify the accuracy of the data sources as the individuals responsible for collation of date (QTM) do not have direct access to any of these systems and have to rely on the service areas, WST and Hornbill, to report this information on a monthly basis. The services only provided a top level position of the department and do not provide the corresponding data extracts to verify the position for data validation purposes. Lack of communication and formal means of cooperation between departments was identified which has led to inaccurate digital vs non-digital percentages reported to SMT. The data reported to the SMT was understated in regards to phone, service points and email interactions and overstated relating to online e-forms. |
| Demolition Process (MSHO) | 1 | 3 | - | Limited | Moderate | <p>Purpose of audit: to review the controls in place around housing demolitions from the perspective of My Southwark Home Owners (MSHO).</p> <p>Key findings:</p> <ul style="list-style-type: none"> Procedure document relating to the issuance of the demolition process was insufficiently detailed and there are no clear line of responsibility between the regeneration team and MSHO team for the monitoring and reporting of issues The final and extended demolition notices issued were incomplete and therefore not in accordance with regulations. |
| Direct Payments | - | 3 | 1 | Moderate | Moderate | <p>Purpose of audit: to review the adequacy and effectiveness of the control relating to direct payments, and controls over the Allpay cards assigned to clients</p> |

| Report issued | Number of recommendations | | | Internal Audit Assurance Opinions | | Purpose of Audit and Key Findings |
|--|---------------------------|---|---|-----------------------------------|---------------------------|---|
| | H | M | L | Design | Operational Effectiveness | |
| | | | | | | <p>Key findings:</p> <ul style="list-style-type: none"> Direct payments that required annual reviews of clients' needs was not being monitored and completed Direct payment agreements were not always in place before payment plans are set-up and funds are released. |
| Housing Applications | - | 2 | - | Substantial | Moderate | <p>Purpose of audit: to provide assurance over the allocation of housing, including the application of the Council's Housing Allocation Scheme and waiting list management</p> <p>Key findings:</p> <ul style="list-style-type: none"> Identity document scanners were not being used to scrutinise the legitimacy of the identity documents and no other alternative arrangements had been implemented Supporting documentation evidencing the award of a priority star was not being retained electronically |
| Litigation Protocols | - | 3 | - | Substantial | Moderate | <p>Purpose of audit: to review the adequacy and effectiveness of the controls, procedures and criteria adopted in respect of whether the Council pursues litigation, including communication, clarity of roles and responsibilities and decision making processes.</p> <p>Key findings:</p> <ul style="list-style-type: none"> Sample testing identified client care letters were missing on case files Incorrect charging of time to the wrong case on Visualfiles and multiple case files being opened Lack of consistency in fee earners completing half yearly and annual performance reviews. |
| Movement (Transport) Policy and Planning | - | 6 | - | Moderate | Moderate | <p>Purpose of audit: to review the council's movement (transport) policy and plan to consider the extent to which it is being delivered in line with supporting plans across the council in the first year of the plan.</p> |

| Report issued | Number of recommendations | | | Internal Audit Assurance Opinions | | Purpose of Audit and Key Findings |
|---------------------|---------------------------|---|---|-----------------------------------|---------------------------|---|
| | H | M | L | Design | Operational Effectiveness | |
| | | | | | | <p>Key findings:</p> <ul style="list-style-type: none"> • Risk assessment of the resources and time invested within the transformation through the Movement Policy and has not been undertaken or added to the Corporate Risk Register • Transport policies have not been updated since 2017 and aligned to the Movement Policies and Plan approved in 2019. The Equity Framework Plan has not been formally approved although it was being use by Highways • The engagement plan results for the population of Southwark for the Movement Policy and Plan did not provide a fully representative view of the various ethnic groups • There were no terms of reference written and approved to document the responsibility and authority of the Southwark Streets Project Board. |
| New Homes Programme | - | 3 | 2 | Moderate | Moderate | <p>Purpose of audit: review the adequacy and effectiveness of the governance and reporting framework with regards to the new homes programme, and an assessment of the robustness of the plan to deliver the new homes target by 2022.</p> <p>Key findings:</p> <ul style="list-style-type: none"> • Actions agreed in the Delivery Programme Board are not consistently being logged and follow up of these actions is not always undertaken and there are no completion dates documented for the actions agreed • The Project Manager’s procedures need to be reviewed and updated to ensure all Project Managers are following the same project management procedures • Reviewed four schemes and noted some financial differences between the Highlight report and Housing Investment Board report, incomplete documentation and the absence of residual |

| Report issued | Number of recommendations | | | Internal Audit Assurance Opinions | | Purpose of Audit and Key Findings |
|--|---------------------------|---|---|-----------------------------------|---------------------------|---|
| | H | M | L | Design | Operational Effectiveness | |
| | | | | | | risk scores after mitigations had been applied. |
| Parks | - | 2 | 1 | Moderate | Moderate | <p>Purpose of audit: to provide a review of the policy framework, strategic framework, and finance and governance around the use of parks for events and generating commercial income through holding these events.</p> <p>Key findings:</p> <ul style="list-style-type: none"> The Outdoor Events policy was unclear in a number of areas, for example what constitutes an event, circumstances where exemptions can be awarded and the level of exemption permitted. Sample testing found a number of small errors in charges, stakeholders had not been notified of events and non-compliance with the policy. |
| Payroll and HR <i>Reporting in progress</i> | | | | TBC | TBC | <p>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 benefits to staff.</p> <p>Key findings:</p> <ul style="list-style-type: none"> To be confirmed - reporting in progress |
| Pensions Administration (Schools) | 2 | 1 | 1 | Moderate | Limited | <p>Purpose of audit: a review of the controls and maintenance of records relating to pension administration of schools including timeliness, completeness and accuracy of the pension data submitted by schools' payroll providers.</p> <p>Key findings:</p> <ul style="list-style-type: none"> Schools were not providing their submissions in a timely manner, the majority by Strictly Education and EPM resulted in a significant number of submission errors, the majority by Strictly Education, DataPlan and EPM Southwark and its actuary, AON, have provided extensive |

| Report issued | Number of recommendations | | | Internal Audit Assurance Opinions | | Purpose of Audit and Key Findings |
|--|---------------------------|---|---|-----------------------------------|---------------------------|--|
| | H | M | L | Design | Operational Effectiveness | |
| | | | | | | <p>training and support to schools and payroll providers throughout 2019/20, but errors are still occurring.</p> <ul style="list-style-type: none"> Schools were not submitting all starter and leaver forms on a timely basis. |
| SAP Scheme of Delegation and Authorisations <i>Draft Report</i> | - | 2 | 2 | Moderate | Moderate | <p>Purpose of audit: to 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> <p>Key findings:</p> <ul style="list-style-type: none"> Identified 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. A small number of leavers whom had left the council had not been removed from the system within a timely manner and instances where changes to users' roles within the Council had not been appropriately communicated to the FC&P team. |
| School Admissions | - | - | - | Substantial | Substantial | <p>Purpose of audit: to review the Council's arrangements for ensuring that it complies with the legislative requirements contained within the Code of School Admissions.</p> <ul style="list-style-type: none"> No findings identified or recommendations made. |
| Software Asset Management | - | 4 | - | Moderate | Moderate | <p>Purpose of audit: to provide management with assurance that there are systems and processes in place for software asset management and control.</p> <p>Key findings:</p> <ul style="list-style-type: none"> The Council did not have a defined policy or procedure in place for software asset management Not all applications in the Council's application register had been |

| Report issued | Number of recommendations | | | Internal Audit Assurance Opinions | | Purpose of Audit and Key Findings |
|---|---------------------------|---|---|-----------------------------------|---------------------------|---|
| | H | M | L | Design | Operational Effectiveness | |
| | | | | | | <p>assigned an appropriate business owner nor is specific information about the software recorded in the register</p> <ul style="list-style-type: none"> • There were no procedures in place for involving central IT for the procurement of any software application • Accountability for the SAP contract had not been assigned and there are no arrangements in place for reviewing and reconciling SAP licenses. |
| South Dock Marina <i>Reporting in progress</i> | | | | <i>TBC</i> | <i>TBC</i> | <p>Purpose of audit: to provide assurance on the operational and financial management controls in place underpinning the running of the Marina.</p> <p>Key findings:</p> <ul style="list-style-type: none"> • To be confirmed - reporting in progress |
| Substance Misuse Rehabilitation Service | 1 | 4 | - | Moderate | Moderate | <p>Purpose of audit: to assess the adequacy and operational effectiveness of the control framework for the management of income and expenditure in relation to substance misuse rehabilitation service initiatives provided by the Council.</p> <p>Key findings:</p> <ul style="list-style-type: none"> • Policies and procedures were insufficiently detailed and the checklist needs to update to ensure all necessary information was captured • Care packages: recording and sign off and subsequent reviews were not being consistently adhered to and invoices were not being authorised in line with the scheme of management. |
| Supported Living <i>Draft Report</i> | 1 | 3 | - | Moderate | Limited | <p>Purpose of audit: to review the adequacy of the design and operational effectiveness of the controls in relation to supported living contracts; Disclosure and Barring Service (DBS) checks and training for staff; risk assessments; and budget management.</p> <p>Key findings:</p> |

| Report issued | Number of recommendations | | | Internal Audit Assurance Opinions | | Purpose of Audit and Key Findings |
|--|---------------------------|---|---|-----------------------------------|---------------------------|---|
| | H | M | L | Design | Operational Effectiveness | |
| | | | | | | <ul style="list-style-type: none"> Provider visits were not adequately providing assurance that staff supporting clients in supported living have been DBS checked. Staff were not routinely interviewed to gain a better understanding of the provider's services and there was no specific confirmation that residents' needs were being met. Subsequent reviews had not been completed in a timely manner to ensure previous issues are addressed and safeguarding issues are resolved Confirmation that one provider's risk assessments had been reviewed was absent and for one provider it appeared that no monitoring visit had been arranged. |
| Travel Assistance <i>Draft Report</i> | - | 1 | 1 | Substantial | Moderate | <p>Purpose of audit: to review the adequacy and operational effectiveness of the controls in place for the award and subsequent monitoring and review of travel assistance funding provided and costs incurred by the Council.</p> <p>Key finding:</p> <ul style="list-style-type: none"> A record of the spot checks undertaken for direct payments under £40 not being maintained and a decision on appeals has not being made within a timely manner due, the delays were due to Covid-19. |
| Treasury Management <i>Draft Report</i> | - | 2 | - | Moderate | Substantial | <p>Purpose of audit: provide assurance over the adequacy and effectiveness of the internal control environment for investment and borrowing transactions.</p> <p>Key finding:</p> <ul style="list-style-type: none"> The Council's Treasury Management was last updated in 2017/18 and also referenced the 2017/18 Treasury Management Strategy, and contained out of date information. Our review of the JCAD system noted there to be one risk |

| Report issued | Number of recommendations | | | Internal Audit Assurance Opinions | | Purpose of Audit and Key Findings |
|-------------------------|---------------------------|---|---|-----------------------------------|---------------------------|--|
| | H | M | L | Design | Operational Effectiveness | |
| | | | | | | related to treasury management in addition to five supporting control measures. Whilst our audit work was able to confirm the controls were in place, for example the Treasury Management being approved on an annual basis, the production of a mid and full year report, production of a cash flow forecast and the production of valuation reports, the risks had not been reviewed since March 2019. |
| Tree Management Service | 2 | 2 | 1 | Moderate | Limited | <p>Purpose of audit: review of the adequacy of the Council's Tree Management, ensuring key risks related to ETRP are being adequately addressed.</p> <p>Key findings:</p> <ul style="list-style-type: none"> The in house team was significantly under resourced to carry out the required ongoing maintenance of ageing and growing trees. There was an increasing backlog of tree inspections and resourcing gap due to the inability of in house team to complete the jobs allocated to them There was inaccurate calculation and inconsistent monthly KPI's within the "Performance Monitor" with no formal working papers retained to validate the data. |

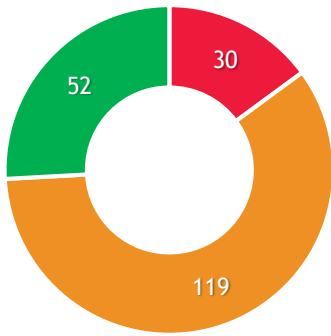
SUMMARY OF FINDINGS

These figures will be updated to include the recommendations and opinions provided in audits currently in progress.

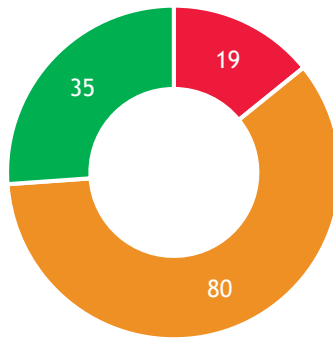
RECOMMENDATIONS AND ASSURANCE DASHBOARD

Recommendations

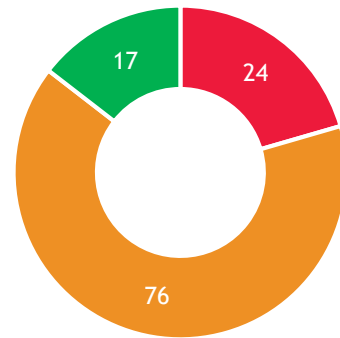
2018-19



2019-20

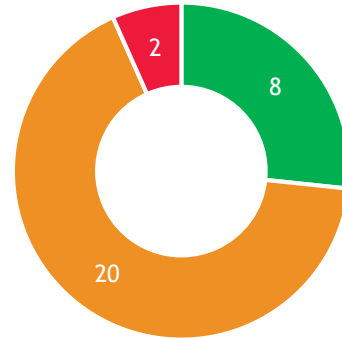
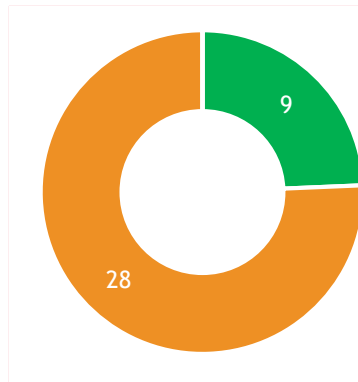
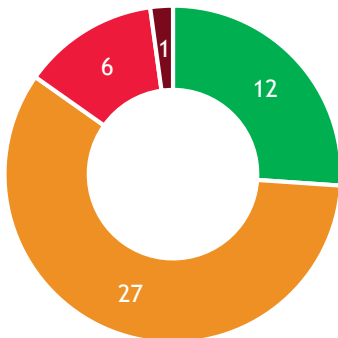


2020-21

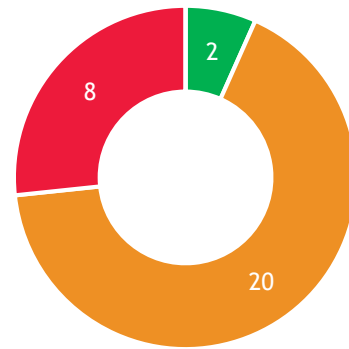
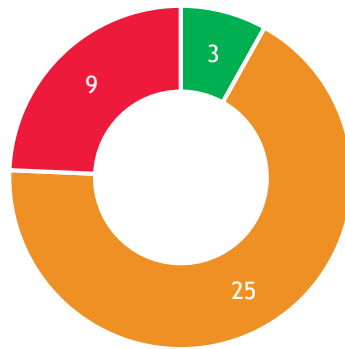
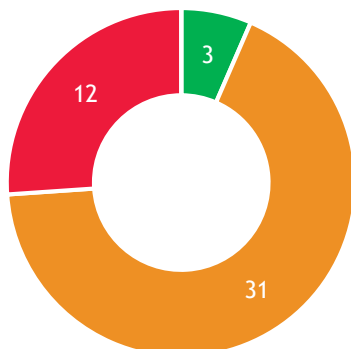


■ High ■ Medium ■ Low

Control Design

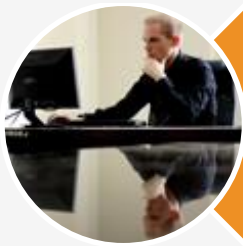


Operational Effectiveness



■ Substantial ■ Moderate ■ Limited ■ No

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 audit plan in light of Covid-19.

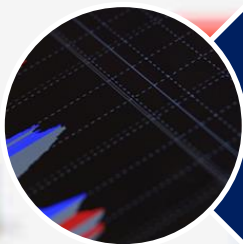


BENCHMARKING AND BEST PRACTICE

We undertook benchmarking to compare the Council's practices with other London boroughs

We identified areas where the council can improve financial performance and create efficiencies e.g. corporate credit card

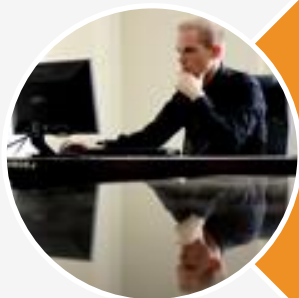
Best practice comparisons were undertaken (e.g projects and grants funding and monitoring)



INNOVATION

We utilised data analytics in audits where appropriate (e.g. accounts payable, payments to children & families, treasure management and payroll).

KEY THEMES



PEOPLE

Overall, there were clear roles and responsibilities within the areas reviewed. There is a need for departmental Schemes of Delegation and Management to be updated and an improvement in communications across teams e.g. Corporate Credit Cards, SAP Scheme of Delegation and Authorisations and Demolition Process (MSHO). As well as resourcing issues identified within the Tree Management Service audit.



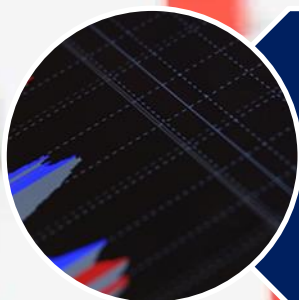
SYSTEMS & PROCESSES

There are policies and procedures in place, however we identified non-compliance with these within the following areas: Pensions Administration (Schools) and Bank Line. Significant gaps within the Mosaic system were identified in the BUPA Overpayments review.



POLICES & PROCEDURES

There are insufficient policies and procedures in the following areas reviewed: Demolition Process (MSHO), Substance Misuse Rehabilitation Service (SMRT), New Homes Programme and IT Software Asset Management



GOVERNANCE & FOLLOW UP

Overall there are sound Governance and effective monitoring arrangements in place across the Council.

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 Directors 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.

Due to the impact of Covid-19 upon the late commencement of the 2020-21 internal audit plan (from 17 August 2021) and the carry forward of a number of audits from 2019-21, our internal audit period of work was extended to the end of May 2021, for the completion of all fieldwork relating to the twelve month period from 1 April 2020 to 31 March 2021. The work 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 and work deferred due to the impact of the pandemic. The plan delivered 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 by London Borough of Southwark to manage risks in business areas identified by management set out in the 2020-21 Internal Audit Annual Plan approved by the Audit 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.

The opinion provided on page five 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 Committee is to agree reports with management and then present and discuss the matters arising at the Audit 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.

The implementation rate for previous recommendations is currently 76%. This is low compared to recent years, in particular 2019-20 when we reported an implementation rate of 88%. This is primarily due to the impact of Covid-19.

Relationship with external audit

All our final reports are available to the external auditors through the Audit, Governance and Standards Committee papers and 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 Committee, and the Directors 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 2020-21. 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 2020-21
- 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 London borough of Southwark
- Any limitations which may have been placed on the scope of internal audit - no restrictions were placed on our work



KEY PERFORMANCE INDICATORS

| Description / KPI for Internal Audit 2019-20 | Actual and comment | RAG Rating |
|---|---|------------|
| Audit Coverage | | |
| Annual Audit Plan delivered in line with timetable | Due to the Covid-19 pandemic, we have been unable to complete all of the audit plan to draft report stage. At the time of writing, 2 audits remain at fieldwork stage and 6 reports are being drafted. | ● |
| Actual days are in accordance with Annual Audit Plan - 1,030 days | We have delivered 847 days of the internal audit plan, the remaining days relate to the carry forward of audits to 2021-22 as part of the approved plan. | ● |
| Relationships and customer satisfaction | | |
| Customer satisfaction reports - overall score at average of at least 3.5 / 5 for surveys issued at the end of each audit. | We have received nine survey responses as at the end of the year, providing an overall rating of 5 in two cases and 4 out of 5 in seven cases. | ● |
| Annual survey to Audit, Governance and Standards Committee to achieve score of at least 70% | New survey to be issued. | - |
| External audit can rely on the work undertaken by internal audit (where planned) | N/A to date | - |
| Staffing | | |
| At least 60% input from qualified staff | KPI has been met for the year. | ● |
| Audit Reporting | | |
| Issuance of draft report within 3 weeks of fieldwork `closing` meeting | All draft reports issued to date were within 3 weeks of the closing meeting. | ● |
| Finalise internal audit report 1 week after management responses to report are received. | All final reports issued to date were within 1 week of receipt of the complete management responses. | ● |
| 90% recommendations to be accepted by management | Recommendations are largely accepted by management following the closing meeting. | ● |
| Information is presented in the format requested by the customer | We have agreed the reporting format with the Strategic Director of Finance and Governance. | ● |
| Audit Quality | | |
| High quality documents produced by the auditor that are clear and concise and contain all the information requested - measured within customer satisfaction surveys | We have received nine survey responses as at the end of the year, one providing a rating of 5, seven providing a rating of 4 and one providing a rating of 3 out of 5 with regards to the quality of our outputs. | ● |

| | | |
|---|--|---|
| Positive result from any external review | An external review was completed in March 2021, and we are awaiting the report. | - |
| Description / KPI for Council Management and Staff 2019-20 | Actual and comment | RAG Rating |
| <i>Response to terms of reference and reports</i> | | |
| Audit sponsor to respond to terms of reference within one week of receipt and to draft reports within three weeks of receipt | With minor exceptions (usually due to leave commitments), Council management have responded in a timely manner. |  |
| <i>Implementation of recommendations</i> | | |
| Audit sponsor to implement all audit recommendations within the agreed timeframe | At the end of the year 76% of recommendations due had been implemented. |  |
| <i>Co-operation with internal audit</i> | | |
| Internal audit to confirm to each meeting of the Audit, Governance and Standards Committee whether appropriate co-operation has been provided by management and staff: a) providing unrestricted access to all of the Council's records, property, and personnel relevant to the performance of engagements b) responding to internal audit requests and reports within the agreed timeframe and in a professional manner c) being open to internal audit about risks and issues within the organisation d) not requesting any service from internal audit that would impair its independence or objectivity e) providing honest and constructive feedback on the performance of internal audit | We can confirm that to date the Council's management and staff have cooperated as per the commitments a) to e), although there have been some delays in receiving information necessary to complete our audit work, largely due to the commitments and priorities of staff with regards to Covid-19. |  |







APPENDIX I

ANNUAL OPINION DEFINITION

| | |
|--|--|
| Substantial - Fully meets expectations | Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is only a small risk of failure or non-compliance. |
| Moderate - Significantly meets expectations | Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is some risk of failure or non-compliance. |
| Limited - Partly meets expectations | Our audit work provides assurance that the arrangements will deliver only some of the key objectives and risk management aims of the organisation in the areas under review. There is a significant risk of failure or non-compliance. |
| No - Does not meet expectations | Our audit work provides little assurance. The arrangements will not deliver the key objectives and risk management aims of the organisation in the areas under review. There is an almost certain risk of failure or non-compliance. |

REPORT OPINION SIGNIFICANCE DEFINITION

| Level of Assurance | Design Opinion | Findings | Effectiveness Opinion | Findings |
|---|--|--|---|--|
|  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 noncompliance 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 DEFINITION

| | |
|---------------|--|
| 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. |



FOR MORE INFORMATION:

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