

Decision Maker: **AUDIT SUB-COMMITTEE**

Date: **Tuesday 8 June 2021**

Decision Type: Non-Urgent Non-Executive Non-Key

Title: **ANNUAL INTERNAL AUDIT REPORT**

Contact Officer: David Hogan, Head of Audit and Assurance
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Chief Officer: Director of Finance

Ward: (All Wards)

1. Reason for report

This report informs the Audit Sub Committee of Internal Audit activity in 2020/21. It assists the Council in meeting the financial management and internal control requirements of the Accounts and Audit Regulations 2015. In particular it includes:

- an overview of work undertaken and the levels of assurance;
- an analysis of the quality and effectiveness of Internal Audit confirming that the service generally conforms with the Public Sector Internal Audit Standards;
- the Head of Audit and Assurance's opinion on the internal control environment.

2. **RECOMMENDATION**

Members are asked to note the report and the Head of Audit and Assurance's opinion on the soundness of the internal control environment within the London Borough of Bromley.

Impact on Vulnerable Adults and Children

1. Summary of Impact: None
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Corporate Policy

1. Policy Status: Not Applicable
 2. BBB Priority: Excellent Council:
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Financial

1. Cost of proposal: Not Applicable:
 2. Ongoing costs: Not Applicable:
 3. Budget head/performance centre: Internal Audit and Assurance
 4. Total current budget for this head: £541K including Internal and External Audit, Fraud Partnership, Insurance Management and Claims handling.
 5. Source of funding: General Fund, Admin Penalties, Legal cost recoveries
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Personnel

1. Number of staff (current and additional): 7.5 FTE including 1 FTE Insurance and Risk Manager
 2. If from existing staff resources, number of staff hours: 2020/21 940 audit days were proposed to be spent on the audit plan, fraud and investigations – excludes RB Greenwich time.
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Legal

1. Legal Requirement: Non-Statutory - Government Guidance:
 2. Call-in: Not Applicable:
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Procurement

1. Summary of Procurement Implications: None
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): N/A relevant to all stakeholders of the Council
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments: Not Applicable

3. COMMENTARY

- 3.1 The annual report is for Member information and intended to assist the Council in meeting the requirements of the Accounts & Audit Regulations 2015. The regulations require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, and taking into account the Public Sector Internal Auditing Standards (PSIAS). The work forms the basis of the annual opinion of the Head of Audit and Assurance and provides supporting evidence for the Annual Governance Statement, which is also considered on the agenda.
- 3.2 Internal Audit's objectives have been to assist management and Members in managing risks, maintaining good standards of control and continuously improving service delivery through independent appraisal, review and advice. Due to the unprecedented impact of Covid 19 this has been a far from usual year which presented us with the challenge of how to provide a meaningful level of assurance in our annual opinion based on the work we've undertaken and the assurances we have received. As already reported during the year some Members of the Audit team had been redeployed on Covid 19 workstreams and much of the remaining resources focused on the revised risk profile of the organisation. In particular work was directed to protect the public interest and provide real time assurance over Covid workstreams.
- 3.3 In line with professional guidance it has been established that it is possible to give an audit opinion based on work undertaken this year, cumulatively over the past few years and by relying on other sources of assurance. The annual audit opinion should never only be a snapshot. The reliance placed on other sources of assurance is more detailed this year and disclosed in forming the opinion.
- 3.4 Over the last few years, the results of audit work have led to assurance opinions that the organisation is adequately governed, risks are managed and that there is an adequate framework of control. This has been reported in both the Head of Audit's Annual Opinion reports and the Annual Governance Statements. There were 6 audits completed in May or June 2020 which informed the opinion for 2019/20. In view of the fact they are reasonably current they have been included as part of the underlying evidence for 2020/21.
- 3.5 In a normal year, the opinion would be based on the completion of the audit plan and other external assurance. Early in the pandemic the Internal Audit Standards Advisory Board produced guidance to support Heads of Internal Audit in the UK public sector, and the Internal Audit Service used this to guide its activities. It acknowledged that all internal auditors of any organisation in countries significantly affected by COVID-19 would reassess their work plans and staff priorities. For public sector internal auditors there was an additional responsibility. All staff in a public service body have a responsibility to work in the public interest and as result few internal auditors will be operating under 'business as usual' conditions with staff in many teams likely to be taking on different roles to support their organisation and the public interest.
- 3.6 The guidance stated that the Mission of Internal Audit is 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.' In the current circumstances internal auditors will be fulfilling their Mission in different ways than usual. However, the critical point is that they should still fulfil that Mission. Ideally, this will provide enough assurance to support audit opinions, and for the Governance Statement, although it will certainly be appropriate to draw attention to the context within which this assurance was gained and potential limitations. The guidance gave examples of ways that internal audit could protect organisational value during the pandemic which have been followed by the Bromley team.
- Helping to protect the organisation's operations by working with management to find new ways of working

- Providing real-time advice and insight in the development of new systems and controls. For example, where the organisation has had to implement a new and urgent government policy.
- Ensuring that internal audit's work remains risk-based, but continuously reassessed to reflect the significant changes and escalation of risk levels being experienced.
- Providing real-time assurance to the Council's Senior Leadership Team and Audit Sub-Committee on the actions and decisions being made.
- Helping the organisation to understand and plan for longer term risks resulting from the current crisis to protect the organisation and its services going forward.

This year we have arrived at the opinion for 2020/21 by:

- Independently reviewing, appraising and providing assurance reports
- Contributing advice and challenge to management to find new ways of working
- Providing real time assurance in respect of Covid 19 work programmes, including advice and guidance on establishing control systems
- Providing pre event and post event assurance on high risk and high spend Covid 19 work programmes
- Ascertaining the extent of compliance with procedures, policies, regulations and legislation
- Reviewing client contract and monitoring arrangements
- Reviewing and refreshing the arrangements for Risk Management and departmental and corporate risk registers
- Identifying fraud and irregularity and working in partnership with RB Greenwich
- Providing advice for officers on governance and controls, risk management and fraud awareness
- Obtaining assurances from the key second line of defence operations
- Obtaining signed annual assurance statements from Directors
- Using the evidences obtained when compiling and reviewing the Annual Governance Statement

3.7 Internal Audit has ensured that controls operate in an efficient and effective manner, statutory and management requirements are complied with, completeness and accuracy of records are secured and identified weaknesses are corrected. Due to the emergency created by the global pandemic much of this was done at pace and in real time this year. However, the Council's successful response to the pandemic and its willingness to engage Internal Audit as a key advisor demonstrate that its risk management, governance and control processes are working adequately.

3.8 Analysis of 2020/21 activity and use of resources

- 3.8.1 The 2020/21 Audit Restart and Recovery plan was agreed at the November Audit Sub Committee. At the time of drafting that plan it was not envisaged that further restrictions and lockdowns were to continue throughout the rest of the year.
- 3.8.2 The Audit Restart and Recovery plan identified a total of 45 separate tasks. 4 tasks will be undertaken in 2021/22. 3 were cancelled. 9 new tasks were added. By the end of the year work was either completed or in progress on a total of 48 projects. Unplanned investigations were also carried out involving Internal Audit as opposed to the Anti-Fraud work separately completed by the Royal Borough of Greenwich Team. Detailed analysis on the tasks undertaken are included in Appendix A.
- 3.8.3 Impact of Covid 19 Lockdown, Restrictions and Additional Responsibilities placed on the Council**
- 3.8.4 The pandemic caused widespread disruption to all services including Internal Audit. Internal Audit has concentrated on enabling the Council to deliver front line services with resources redirected to provide real time assurance in respect of significant additional work generated by the pandemic and supporting service delivery. This resulted in changes to work plans reported to the Committee. The service was delivered remotely. Advice from the PSIAS was followed that work in the Public Interest was appropriate.
- 3.8.5 The support work included giving advice on new controls, processes, governance and financial procedures being put in place temporarily across the Council to reflect new ways of working, including home working and greater use of IT, as well as new responsibilities being placed on the Council.
- 3.8.6 Staff were redeployed to services including Operation Shielding and the plan was redrafted to include additional work around business support grant payments. The number and complexity of these different schemes was reported to the Audit Sub Committee at the last meeting in March and is not repeated here. Presently, additional work has continued on Restart Grants and Additional Restriction Grants schemes. Internal Audit provided real time advice and challenge in setting up payment scheme processes. Additional work was carried out to create Fraud Risk Assessments, completing checks to identify any instances of fraud and irregularity in schemes to distribute emergency funding and grants both pre and post payment. Internal Audit also liaised with government and public sector counter fraud organisations to share intelligence reports, counter fraud tools and best practice in response to risks arising from those using the pandemic to commit fraud.
- 3.8.7 The team has endeavoured to progress other planned work where it has been possible to do so. However, this has been impacted by the ability of operational services to prioritise responses to Internal Audit as they have also had staff seconded and additional obligations and responsibilities to address with respect to Covid 19. At the last Committee meeting the Vice Chairman asked (given the extra workload) if the current staffing levels of the Internal Audit Team were sufficient. The response was that the Internal Audit Team were coping for now, but the position on a long-term basis was not sustainable. It was noted that the services of Mazars had not been called upon in the last financial year. I am pleased to note that the Director of Finance has agreed to seek authorisation for an additional £30,000 budget from a Finance Department underspend to be used for additional resources of Mazars staff commissioned through the LB Croydon Apex framework. Meetings have already been held with Mazars and some work is underway which will go some way to catch up on planned work.

- 3.8.8 Risk Management, overseen by Internal Audit, continued to operate as normal throughout the year. The work of the Corporate Risk Management Group has been satisfactorily progressed virtually.
- 3.8.9 Counter Fraud work continued to throughout the year although all face to face interviews under caution have been postponed for much of the time. There has been some opportunity with lower numbers of Blue Badge Referrals to review and progress current cases. There is more detail in the Part 2 report.
- 3.8.10 The impact on many front-line services has also been profound, with many impacted by Covid 19 in terms of staff and clients. This meant that finalising some audits and reports and agreeing with management the action required to implement the audit recommendations have been delayed.
- 3.8.11 The allocation of time is set out in Table 1 with a comparison to 2019/20. Additional time is accounted for as staff have used less leave this year,

Table 1

Department	Actual Days 19/20	Department	Actual Days 20/21
Corporate	215	Corporate	127
Chief Executive's	277	Chief Executive's	136
Education Care and Health Services including Public Health	231	People	41
Environment and Community Services	97	Place	32
Anti-Fraud and Investigations	61	Anti-Fraud and Investigations	54
Covid 19 Advice on Finance/Governance & Control	51	Covid 19 Advice on Finance/Governance & Control	49
		Covid 19 work streams Real time assurance (support grants etc)	316
		Secondment to Shielding advice team etc	220
Total	936		975

3.9 Summary of work undertaken and audit opinions

- 3.9.1 Audits are conducted in accordance with prescribed standard. Not all tasks result in an opinion.

3.9.2 A summary of work undertaken follows in Table 2 below. *(these figures are yet to be finalised)*

Table 2

Planned tasks at Audit Restart and Recovery Plan 2020/21	46
Work to be commenced in 21/22 (4), cancelled (3),	7
New Assignments added to the plan	9
Completed tasks including reports at draft stage and ongoing tasks	42
Work in progress	6

3.9.3 Further analysis is detailed in Appendix A

In order to provide evidence for the overall opinion an Assurance rating was given in respect of 21 reviews at draft or final stage (including the 6 audits completed May/June 20 referred to in paragraph 3.4. In order to provide comparative assurance for our overall opinion we have scored the systems reasonable where we provided Real Time Assurance on Covid 19 work streams such as business grants, or provided assurance on grant schemes to government. This makes 39 auditable areas where we have been able to give an opinion.

Table 3

Substantial Assurance	8
Reasonable Assurance	9
Limited Assurance	4
No Assurance	0
Sufficient evidence to support grant claims requiring Internal Audit verification/Overall opinion resulting from work on AGS	6
Real time assurance to ensure adequate control in system design and real time checks to prevent error/fraud in	12

3.9.4 Following an Internal Audit review and after consultation with management, auditors form an overall opinion on the extent that actual controls in existence provide reasonable assurance that significant risks are being managed. They grade the control system accordingly. The opinions given are currently graded according to the criteria in Table 4.

Table 4

Assurance Level	Definition
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
Reasonable Assurance	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
No Assurance	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

- 3.9.5 Members will be aware of the assurance categories and definitions for these. In addition there are some claims for external funding such as The Troubled Families Programme and the Disabled Facilities Grant where the Internal Audit function of each of the recipient authorities are required to investigate and check that the conditions attached to the specific grants have been complied with.
- 3.9.6 Summaries of all individual reports have been reported to the Audit Sub-Committee following a formal report to management and it is not necessary to detail them again here. Each audit is conducted according to the Public Sector Internal Audit Standards. Final reports are agreed with the client prior to release. They are followed up systematically. Finalised audit reports are published on the Council's web site.
- 3.9.7 The past year has been like no other and resulted in fewer traditional audit reports with audit opinions. This caused concern amongst Heads of Audit (HIA) as although the work being undertaken was of importance and was addressing key risks faced by the authority, they were concerned about having sufficient evidence on which to place reliance. Fortunately, there was advice from professional bodies and professional network bodies. The advice included revising audit plans and to focus on key areas of risk, focussing on Covid response. Work of lower priority could wait until next year. It would be acceptable to use work on real time assurance on new systems to address Government policies even without full audit testing. Additionally, greater focus on other internal sources of assurance was recommended.
- 3.9.8 Where an organisation has adopted a comprehensive assurance framework then this may be used by the HIA to support the opinion, if those other sources of assurance are demonstrated to be robust. The CIPFA Statement on the Role of the Head of Internal Audit also emphasises the responsibility of the leadership team for establishing wider frameworks of assurance and accountability. The Head of Audit and Assurance attends all meetings of the Corporate Leadership Team. The leadership team has demonstrated in its actions and behaviours responsibility for governance and internal control.
- 3.9.9 As part of the annual assurance process for the 2020/21 financial year, each Chief Officer completed a Statement of Internal Control, which reminds them of their responsibilities to maintain systems of control and confirming that: **'In meeting my responsibilities, I have:**

- ▶ Contributed to the review of Risk Registers and the outcomes
- ▶ Ensured that there are controls in place to mitigate the risks highlighted in the above exercise
- ▶ Considered relevant assessments of key service areas within the Department e.g. benchmarking, peer review
- ▶ Taken into account internal and external audit and inspection reports and results of follow ups regarding implementation of recommendations

I am satisfied that to the best of my knowledge, the following procedures are in place:

- ▶ The service is planned and managed in accordance with the Council's Corporate Operating Principles
- ▶ Business risks are identified, assessed and reported on a regular basis
- ▶ Key controls over systems and processes are in place to ensure the Council's assets are safeguarded
- ▶ Business Continuity Plans are maintained and reviewed as circumstances change
- ▶ The monthly Cumulative Spend Report has been reviewed and agreed as part of the Full Budget Monitoring System
- ▶ Key contract information is kept up to date in the Contracts Database to allow Contract Registers and other management information to be reported'

3.9.10 Exceptions have been disclosed and reviewed and there is nothing that indicates a deterioration in control.

3.9.11 Whilst assurance for the Finance and Human Resources functions was captured as part of the Chief Officer sign off process, assurance was sought from the relevant Head of Service for the following "second line of defence functions" that, in their professional opinion, the system of control, including standards of practice and Council policies, remained adequate and effective throughout 2020/2021.

- ▶ Legal Services
- ▶ Health and Safety
- ▶ Information Technology
- ▶ Performance Reporting and Reviews, Internal and Self Assessments (Chief Executives, People, and Environment and Public Protection)
- ▶ Safeguarding (Adults and Children's)

3.9.12 The request for assurance was also extended to the Engagement and Complaints function, which has a unique insight into people's perception of the standards of practice and implementation of Council policies.

3.9.13 In July 2020, 20 Priority 1 recommendations were reported to the Audit Committee, brought forward from 2019/20; 16 of these recommendations were implemented during 2020/21. No new Priority 1 recommendations were reported during 2020/21 and 4 Priority 1 recommendations have been carried forward to 2021/22.

3.9.14 Following a decision by Members, all audit reports suitably redacted, are published on the internet unless exemption is sought. A summary of the key issues and challenges for the authority arising from our work is detailed in the Head of Audit and Assurance's opinion in Section 3.11.5.

3.10 Risk Management

3.10.1 It was agreed by the Committee that Risk Registers would be reviewed at least six monthly, updated and reported first to Audit Sub Committee and then to the respective PDS Committees. The latest iterations of the departmental and corporate risk registers are attached as Appendices of the Internal Audit Progress Report.

3.10.2 Since the last meeting of the Audit Sub Committee on 9th March 2021, one key amendment has been made to the Corporate Risk Register, by way of the deletion of the 'Potential detrimental impact of BREXIT upon service delivery' risk with individual departments affected by any aspect of the Brexit agreement managing the risk on an individual service basis and recording in the Departmental Risk Register as appropriate.

3.10.3 During 2020/21, the Corporate Risk Management Group met twice (September 2020 and January 2021), undertaking its usual programme of scrutiny. The 2021/22 cycle commenced with the meeting of 26th April 2021. The Corporate Risk Management process continued to operate fully though out the year.

3.11 Public Sector Internal Audit Standards (PSIAS)

3.11.1 Internal Audit engagements are subject to a thorough internal review of quality to ensure that its work meets the standards expected from its staff. For example, review is carried out of all audit work to confirm that:

- It is undertaken in accordance with the PSIAS
- The work is planned and undertaken in accordance with risks associated with the areas under review
- The conclusions are fully supported by detailed work undertaken

3.11.2 Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor. A peer review was carried out in March 2016. The review concluded that the section generally conforms to the standards.

3.11.3 It is a requirement of the Public Sector Internal Audit Standards to have an External Quality Assessment (EQA) carried out at least every 5 years and it can be done either by peer review, or you can pay for an outside organisation to do it. The London Audit Group have organised a system of Peer Reviews with safeguards to make it as independent as possible, such as the reviewer and reviewee councils are not neighbours and the audit teams do not have a regular relationship. In July 2019 the Head of Audit & Assurance confirmed to the organisers that Bromley Internal Audit would potentially like a review in Quarter 4 of 2020/21 and would be prepared to carry out a review of another authority. In February of 2020 preliminary confirmation was sought for LB Bromley to undertake a review of another authority and time was allocated in the 2020/21 Audit Plan for the Peer Review of Bromley. However, the National lockdown and the effects of the pandemic understandably put any such arrangements on hold. We are now scheduled for a review by the Royal Borough of

Kensington and Chelsea in quarter 4 of 2021/22 and LB Bromley is scheduled to review the London Borough of Hackney in 2023/24.

- 3.11.4 Periodic reviews of compliance to the standards are required and the Head of Audit and Assurance has reviewed compliance with the standards and the Local Government Application Note. It can be confirmed that the section generally conforms to the PSIAS. Of the 112 areas that were applicable to the service, conformance was confirmed in 101 areas (90%) partial conformance in 10 areas (9%) and 1 where there was non-conformance (0.9%). The non- conformance is a technicality that is easily remedied and has had no adverse impact. The Public Sector Internal Audit Standards require that the internal audit charter defines the terms 'board' and 'senior management' in relation to the work of internal audit. For the purposes of internal audit work, the 'board' refers to the Council's Audit Sub Committee which has delegated responsibility for overseeing the work of internal audit. Senior management is defined as the Chief Officer's Executive (COE), which includes the Chief Executive and his senior leadership team of Directors. Additionally, senior management includes the Corporate Leadership Team (CLT) which comprises COE Members, Assistant Directors and some Heads of Service. The revised Charter has been updated accordingly and is attached as Appendix B. The opportunity has also been taken to clarify additional wording in the Charter.
- 3.11.5 There are no significant findings from Internal Audit's Quality Assurance and Improvement Programme that require reporting to the Audit Sub-Committee or referred to in the Annual Governance Statement. In addition to the External Quality Assessment to be completed, the areas identified have led to the following items for inclusion in our improvement plan:
- Reviewing auditor's skills gaps and training needs particularly focusing on IT risks and controls
 - Reviewing rotation of assignments to address the risks of over familiarity in some areas
 - Develop review documentation for audit assignments to ensure consistency and clarity for inclusion in the audit manual
 - Review fraud risks for the authority
 - Update the audit planning checklist to incorporate suggestions from the PSIAS and for inclusion in the audit manual.
- 3.11.6 The IASAB guidance on Conformance with the PSIAS during the Coronavirus pandemic states that Assessors undertaking a PSIAS review in the next year should take into account the significant interruption to business as usual experienced by internal audit teams in the public sector and that the IASAB would encourage assessors to have regard to the guidance note.
- 3.11.7 Reporting and management arrangements have been put in place which preserve the Head of Audit and Assurance's independence and objectivity and it can be confirmed that there have been no impairments or restrictions in scope.
- 3.11.8 When preparing the plan for 2020/21 we said that we aimed to meet the following performance targets:

Table 5

Description	Target	Out-turn
Percentage of audit plan delivered*	90%	Because of significant disruption and changes to the plan caused by the pandemic this is not a meaningful target this year (see analysis in section 3.8 instead)
Percentage of P1/P2 & P3 recommendations accepted at final report stage	95%	100%
Percentage of P1 recommendations followed up	100%	100%
Completion of Internal Audit Annual Report and Opinion	By June Audit Sub-Committee	Achieved
Completion of Internal Audit Plan for Audit Sub Committee Approval	By March Audit Sub Committee	Achieved

* This would be the number of tasks completed as a percentage of planned tasks (adjusted for deferred/cancelled brought forward and carried forward tasks)

3.11.9 Head of Audit – Annual Opinion

3.11.10 The Annual assessment is based on the work reported between April 2020 and the date of this report. In formulating this opinion, the assurance activity undertaken by the Council and other external assurance providers is taken into account along with the following:

- The Audit work undertaken including the assurance opinion ratings
- The follow up reviews determining how the authority responds to identified weaknesses and in particular Priority 1 recommendations
- Contributing advice and challenge to management to find new ways of working
- Providing real time assurance in respect of Covid 19 work programmes, including advice and guidance on establishing control systems
- Providing pre event and post event assurance on high risk and high spend Covid 19 work programmes
- The Council's approach to risk management
- Internal Audit's review of the supporting evidence for the Annual Governance Statement
- Assurance Statements from Directors
- Assurance Statements from Lead Officers for Second Line of Defence functions

- 3.11.11 The concept of continuous improvement is applied in that even in the best performing authorities, errors will occur, or control failures may result despite good intentions. However, the Council should learn from its past performance, rectify defects, and not continue along a path when control failure is evident. The Corporate Leadership Team considers Priority 1 recommendations on a regular basis and managers are held to account. Audit reports highlight those areas where internal control systems need to be improved and the Internal Audit Plan for 2021/22 has time allocated for undertaking follow up work. Internal Audit will pay particular attention to those areas where the Internal Audit opinion was Limited and Priority 1 recommendations have been raised.
- 3.11.12 The work reviewing the Annual Governance Statement also clearly demonstrates the range of organisational controls which serve to provide an effective level of governance.
- 3.11.13 The work in co-ordinating and reviewing Risk Registers in conjunction with the Corporate Risk Management Group demonstrates Risk Management to be effective.
- 3.11.14 In any organisation there are areas where control needs to be enhanced. Individual reports which have identified Limited Assurance opinions are exceptions to the sound system of control until recommendations are implemented. The following paragraphs also provide context where further action is required to maintain the adequacy and effectiveness of the system of control. The Annual opinion also continues in the Part 2 report under the exempt items section of the Fraud and Exempt items report.
- 3.11.15 **Progress and Update on the 2019/20 and 2020/21 accounts:**
- 3.11.16 The external audit of the 2019/20 accounts is ongoing. Members have previously been advised of significant issues in relation to the accounting and valuation of Property, Plant & Equipment and Investment Properties, which will require the accounts to be amended including a prior period adjustment. The current focus of external audit work concerns the methodology used to value Investment Properties and discussions are continuing between the external auditor and the Council's valuer to resolve this and determine whether the methodology needs to be revised and the valuations of Investment Properties amended accordingly.
- 3.11.17 Work in underway to close the Council's main accounts and pension fund for 2020/21. A timetable for the audit has yet to be confirmed with the external auditor.

Electors Objections:

- 3.11.18 The Council has objections outstanding for three years of account. No objections were received in relation to the 2019/20 accounts and the inspection period is now closed. For the 2016/17 and 2017/18 objections, officers are in regular contact with KPMG to discuss resolving this matter as soon as possible. KPMG has recently requested further information from the Council to inform its review and officers are collating and passing their response back to KPMG. Once KPMG has concluded its work, it will report the outcome to officers. There are four potential options available to KPMG:
- Considering if there is an unlawful item of account that they need to ask the court to consider
 - Issuing a report in the public interest on this matter
 - Reporting on this matter with recommendations for Council action (these could be statutory recommendations under the Local Audit and Accountability Act)
 - Taking no action and dismissing the objection

3.11.19 Subsequently, EY will consider the objection received in relation to the 2018/19 accounts, informed by the conclusions that KPMG has made. Whilst outstanding, the objections prevent the external audits for those years from being formally concluded and a completion certificate being issued

3.11.20 **The results of internal audit work concluded during the year and the Assurance Statements provided by Directors and the Lead Officer for key second line of defence statements, together with the work undertaken in compiling the Annual Governance Statement, provide reasonable assurance that overall, there is an adequate and effective framework of governance, risk management and a sound system of control within the Council designed to meet the organisation’s objectives and that controls are applied consistently.** Where weaknesses are identified, i.e. Limited Assurance reports and Priority 1 recommendations are made; these are tracked by the Corporate Leadership Team and the Audit Sub Committee until implemented or discharged. There is further information in part 2 of the report which consider issues not previously reported in part 1 which should be considered as part of this report. In giving this opinion it should be noted that assurance can never be absolute. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

3.11.21 As part of our work on risk management and identifying areas for inclusion in the Annual Governance Statement, we have identified key areas for management attention over the next year. These are summarised below, and further detail is included in the Annual Governance Statement report on the agenda.

3.11.22 **Finance**

3.11.23 A potential balanced budget for the next two years has been achieved through the Transformation Savings Programme, an improved financial settlement from Government and continuing with prudent financial management, but there remains a “budget gap” of £2.5m in 2023/24 rising to £14.1m per annum in 2024/25. The projections assume mitigation and transformation savings of £16.3m in 2021/22 rising to £40.3m by 2024/25. The projections from 2022/23 have to be treated with some caution, particularly as the Government’s next Spending Review, outcome of the Fair Funding Review and Business Rate Devolution is now expected to be implemented from 2022/23 – the outcome, including the impact on individual councils, is still awaited. The Government has provided funding support to address the impact of the Covid 19 pandemic, but uncertainty remains on the medium and longer term impact from the ‘new normal’.

3.11.24 **Valuation of Fixed Assets**

3.11.25 Issues have been identified relating to the methodologies used for accounting and the valuation of fixed assets for reporting in the Council’s 2019/20 Statement of Account.

3.11.26 **Impact of COVID-19 pandemic on service delivery**

3.11.27 Despite the many challenges presented by the COVID-19 pandemic, the Council has delivered some key achievements through the COVID-19 response programmes and business-as-usual work, including a balanced budget for 2021/22. The pandemic has highlighted a number of long-term challenges that will need to continue to be addressed. In particular, the Council will continue to face ongoing cost pressures on the organisation which will need to be locally managed, particularly with regard to social care provision and ongoing local contact tracing response. However, there are also a number of potential opportunities for greater partnership working, particularly with the voluntary and community sector, that will form part of the recovery planning approach. The Council’s work next year will be critical not

only for ongoing response to the pandemic supporting Bromley’s residents, but also its commitment to the delivery of the Transformation Programme, as well as managing growth and delivering budget mitigations as part of the long-term financial management strategy..

3.12 Counter Fraud

3.12.1 Internal Audit works in partnership with the Royal Borough of Greenwich in respect of Counter Fraud Investigations. In total there were 188 referrals from 01/04/2020 to 31/03/2021. These are detailed in Appendix A of the Fraud Report on the agenda. Since last year’s annual report, 57 cases were successfully prosecuted. All 57 cases related to Blue Badge misuse,

4. IMPACT ON VULNERABLE ADULTS AND CHILDREN

4.1 The contents of this report have implications for both adults and children in respect of cost and care requirements.

5. POLICY IMPLICATIONS

None

6. FINANCIAL IMPLICATIONS

6.1 Some of the Internal Audit findings have financial implications.

7. PERSONNEL IMPLICATIONS

7.1 Where appropriate and following a reasonable management investigation, a disciplinary process may be initiated in response to poor practices or/and misconduct.

8. LEGAL IMPLICATIONS

8.1 Internal Audit is a statutory function under the Accounts & Audit Regulations 2015.

9. PROCUREMENT IMPLICATIONS

9.1 The contents of this report have implications for procurement relating to Contract Procedure Rules, Financial Regulations and VFM issues.

Non-Applicable Sections:	Policy
Background Documents: (Access via Contact Officer)	None