

Decision Maker: **AUDIT AND RISK MANAGEMENT COMMITTEE**

Date: **Thursday 30 June 2022**

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

Title: **ANNUAL INTERNAL AUDIT REPORT 2021/22**

Contact Officer: Francesca Chivers, Head of Audit and Assurance
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Chief Officer: Director of Finance

Ward: (All Wards);

1. Reason for report

This report provides the Head of Audit and Assurance's annual opinion for 2021/22 on the Council's overall systems of risk management, governance and control. This opinion is one of the key independent means of assurance available to Members to enable them to ensure that a sound system of governance is in place and that risks are being effectively managed. It should inform Members' review of the Annual Governance Statement, provided as a separate agenda item. The report includes:

- An overview of the work undertaken to support the opinion
- A summary of the outcomes of the Quality Assurance and Improvement Programme
- The Head of Audit and Assurance's overall opinion on systems of risk management, governance and control.

2. **RECOMMENDATION**

Members are asked to note the report and the Head of Audit and Assurance's opinion for 2021/22 on overall systems of risk management, governance and control.

Impact on Vulnerable Adults and Children

1. Summary of Impact: None
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Transformation Policy

1. Policy Status: Not Applicable
 2. Making Bromley Even Better Priority:
(5) To manage our resources well, providing value for money, and efficient and effective services for Bromley's residents.
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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 in 2021/22 including Internal Audit 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: 2021/22 – 881 days spent on the audit plan, fraud and investigations, excludes RB Greenwich investigators' time.
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Legal

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

1. Summary of Procurement Implications: Some audit recommendations will have procurement implications.
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Property

1. Summary of Property Implications: None
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Carbon Reduction and Social Value

1. Summary of Carbon Reduction/Sustainability Implications: None
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Customer Impact

1. Estimated number of users or customers (current and projected): Relevant to all of the Council's stakeholders
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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 Under the Accounts and Audit Regulations, the Council must “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes”, taking into account the Public Sector Internal Audit Standards (PSIAS). It is a key requirement of these Standards that the Head of Audit and Assurance provides an overall opinion for each financial year on systems of risk management, governance and control. This opinion is intended to inform Members’ review of the Annual Governance Statement (AGS), as it provides a means of independent assurance on the assertions within the AGS.
- 3.2 The overall opinion is primarily based on the finalised audits from the 2021/22 Internal Audit Plan. However, it also takes into account:
- ▶ Follow up of ‘Priority 1’ recommendations
 - ▶ Counter fraud work and other investigations throughout the year
 - ▶ Ad-hoc advisory work
 - ▶ Work to support various Covid grant schemes including risks and controls advice and pre-payment assurance checks
 - ▶ Our own informal observations of the organisation, for example through attendance at Corporate Leadership Team, Corporate Risk Management Group and other forums.
- 3.3 I have also chosen to place reliance on two external reviews in order to support my opinion; the risk register review undertaken by the Council’s insurance broker (paragraph 3.9.2) and the independent review of the Bromley Section 31 Health Act 1999 Partnership Agreement regarding Mental Health services (**Appendix A** page 8).
- 3.4 The report also contains the outcomes of our Quality Assurance and Improvement Programme (QAIP), together with the resultant action plan. This information is intended to enable Members to discharge their responsibility to oversee the quality and effectiveness of Internal Audit.
- 3.5 Our ability to remain independent and free from undue influence whilst undertaking our work is critical to our effectiveness, as our assurances are thus fully impartial. As such, I am required by professional standards to annually confirm our independence to Audit and Risk Management Committee. For 2021/22, there have been no impairments or scope restrictions placed on our work.

3.6 Internal Audit Progress

- 3.6.1 Progress against the original 2021/22 Internal Audit Plan as agreed by Members of Audit Sub-Committee in March 2021 is set out in **Table 1** below. This table incorporates all pieces of work and associated opinions which form part of the Annual Opinion. Definitions of our assurance opinions are set out in **Appendix B**. In total, we have completed 31 pieces of work, including assurance, advisory and grant sign off. Two pieces of advisory work (Engagement of Consultant in Youth Offending Services and Meadowship LLP) were added to the Plan during the year. All work completed since the last report to Audit Sub-Committee in March 2022 is marked with * and summaries of these items are provided in **Appendix A** and **Appendix D (Part 2)**. Summaries of all other pieces of work can be found in the [October 2021](#) and [March 2022](#) progress reports. Work that is still in progress will be reported to a future meeting of this Committee. All deferrals were agreed by Audit Sub-Committee in March 2022.

3.6.2 In addition, since the last Committee cycle, we have published the following 2021/22 redacted final reports. Members are asked to agree an exemption to publication for the Cyber Security report, until all recommendations are fully implemented.

- Payroll
- Appointeeship and Deputyship
- SEN Placement and Transition Process
- Contract Monitoring – Environmental Services
- Building Control
- Value Added Tax
- Community Infrastructure Levy (CIL)

Table 1 - 2021/22 Internal Audit Plan	
Audit	Status and Assurance Opinion
Creditors	Complete – Substantial
Information Governance and GDPR	Complete – Limited
FOI and Subject Access Requests	Complete – Limited
*Criminal Finances Act	Complete – Advisory
*Cyber Security	Complete – Limited
Housing Benefit	Complete – Substantial
IT Asset Register	Complete – Limited
Delivery of ICT Strategy	Deferred
*Value Added Tax	Complete – Reasonable
*Payroll (Tax)	Complete – Reasonable
PPN 02/20 and PPN 01/20	Complete – Substantial
Health and Safety – Review of Covid-19 risk assessments	Complete – Reasonable
Engagement of consultant in YOS (additional review)	Complete – Advisory
Learning Disability Supported Living Schemes	Complete – Reasonable
*Appointeeship and Deputyship	Complete – Reasonable
Social Care case management system replacement	Complete – Advisory
Blue Badge Scheme Operation	Complete – Reasonable
*Supporting Families Grant certification	Complete - Terms and Conditions of Grant met
Direct Payments Pre-Paid cards – Adults	Deferred
Direct Payments Pre-Paid cards – Children’s	Fieldwork in progress
*Mental Health Service Agreements and S117	Reliance placed on external review
Financial Assessments for Social Care Clients	Complete – Reasonable
*SEN Placements and Transition Process	Complete – Limited
Downe Primary School	Complete – Reasonable
Marjorie McClure School	Complete – Reasonable
St Olaves Grammar School	Deferred
Test and Trace Service Support 2020/21 Grant Certification No: 31/5075	Not yet required
Local Authority Community Testing Funding Grant determination 2020/21 No: 31/5301	Not yet required
Pre Exposure Prophylaxis (PrEP) Funding Grant determination No: 31/5179	Complete - Terms and Conditions of Grant met
Step Up to Social Work – Cohort 6 Grant determination	Complete - Terms and Conditions of Grant met
Waste Contract	Complete – Substantial
*Contract Monitoring – Environmental Services	Complete – Substantial

Drainage Cleaning	Fieldwork
Temporary Accommodation and Housing Rents	Fieldwork
Housing Needs – Early Intervention and Advice	Complete- Reasonable
Bromley Housing stock – responsibilities arising from managing housing	Cancelled
Disabled Facilities Grant	Complete - Terms and Conditions of Grant met
*Community Infrastructure Levy	Complete – Reasonable
Commercial and non-office owned Property	Fieldwork
Meadowship LLP (addition to the Plan)	Complete – Advisory
*Building Control	Complete - Reasonable

3.7 Internal Audit Outcomes

3.7.1 Our audit opinion this year includes 22 pieces of work that were given a formal assurance opinion. The chart below shows an overall breakdown of these opinions.



3.7.2 Overall, 54% of audits received 'Reasonable' assurance and a further 23% received 'Substantial' assurance (the highest rating). This is a solid set of results which indicates that overall, risks are being well-managed. Three of the 'Substantial' ratings relate to contract audits; these are important results as procurement and contract management are key to the Council's ability to succeed as a 'Commissioning Authority'.

3.7.3 All core financial audits received 'Reasonable' or better assurance (including the two schools' audits). Further, our grant assurance work did not identify any significant issues and we were able to confirm for all grants reviewed that the terms and conditions of the grant had been met. For Covid grants, there were appropriate systems of control in place with necessary checks undertaken prior to payment to minimise fraud risks as far as reasonably practicable.

3.7.4 Our work also provides assurance on the Council's objective since March 2020 to deliver core services alongside the challenges presented by the pandemic. Two pieces of assurance work specifically concerned arrangements put into place in response to the pandemic for staff and suppliers: Covid-19 risk assessments (staff) and Covid-specific Procurement Practice Notes (suppliers). Both of these received 'Reasonable' assurance. Further, all relevant assurance pieces of work this year considered any specific adaptations to the service made in the light of

the pandemic. We found that services had adapted well to the pandemic, including for their interaction with customers and continuity of service delivery.

- 3.7.5 Three of the 'Limited' assurance opinions were given in connection with information governance and security, across FOI / SARs, GDPR and Cyber Security. These are critical areas for the Council to address, as they impact all areas of the Council's operations and carry significant associated financial, reputational and operational risks. Whilst we did raise some more technical recommendations in these audits, two Priority 1 recommendations (one now closed) were around managing human behaviour, including training, compliance and expectations. Clearly, therefore, it will be important that these core underpinning areas are owned by the organisation as a whole and viewed as the responsibility of every employee.
- 3.7.6 **Diagram 1** on page 8 shows how the assurances provided by individual audits map to the organisation's strategic objectives (Ambitions). Some audits appear more than once, where they cut across different Ambitions.
- 3.7.7 Audits have largely provided reasonable or better assurance with regard to Ambitions 2, 3 and 4. There has been limited coverage under Ambition 1: Our children thrive and flourish secure into adulthood, with two of the four audits listed here relating to individual schools and a third relating to a grant claim. For Internal Audit, this ambition will be an area of renewed focus in 2022/23 and we are currently planning an audit of the overarching Quality Assurance framework. The remaining audit of SEN Placements and Transition received 'Limited' assurance. The SEN budget is under considerable pressure; at the time of our audit the estimated overspend for 2021/22 was just over £5 million. The service was in the process of embedding new quality assurance and training initiatives; our audit identified opportunities to further improve oversight of both the budget and placement quality.
- 3.7.8 The bulk of our work for 2021/22 sits under Ambition 5. Typically, these audits are core systems audits or they underpin the control framework of the Council as a whole. There has been a mixture of assurance opinions under this Ambition with just under half assessed as 'Limited' and the remainder split between 'Reasonable' and 'Substantial'. Specific areas are discussed in 3.7.2 – 3.7.5 above.
- 3.7.9 **Diagram 2** on page 9 maps audit coverage against the current Corporate Risk Register (reported as a separate item on this agenda). Our audit work cannot, of course, cover all controls under the listed risks but the mapping highlights where Members may gain some assurance on the management of key risks through our work. Three of the four 'High' risks have received some coverage in 2021/22 with the most comprehensive coverage against 'Cyber Security / GDPR'. Members will note that there are some gaps in coverage however where there is no coverage against high, significant and medium risks, these will be reviewed as part of the 2022/23 Internal Audit Plan.

Diagram 1 – Making Bromley Even Better

Key

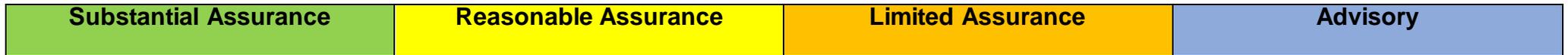


Diagram 2 – Corporate Risk Register

Risk	Current Net Rating	Audit Coverage 2021/22	Audit Outcomes 2021/22
Failure to deliver a sustainable financial strategy	20 (High)	Creditors SEN Placements and Transition Process	Reasonable Limited
Failure to deliver partial implementation of HSC integration	4 (Low)		
Failure to manage change and maintain an efficient workforce	8 (Medium)		
Ineffective governance and management of contracts	8 (Medium)	PPN 01/20 and 02/20 Waste Services Environmental Services - Contract Monitoring	Substantial Substantial Substantial
Failure to maintain and develop IT information systems	6 (Medium)	Some Advisory work including Social Care, Finance and Early Years Funding Systems	All Advisory
Cyber Attack and failure to comply with GDPR	15 (High)	IG and GDPR Cyber Security	Limited Limited
Failure to maintain robust BC and EP arrangements	8 (Medium)		
Failure to deliver effective Children's Services	12 (Significant)		
Temporary Accommodation	16 (High)	Housing Needs - Early Intervention and Advice Meadowship LLP	Reasonable Advisory
Failure to deliver Transforming Bromley Programme	15 (High)		
Climate Change	8 (Medium)		
Health and Safety (Fire and First Aid)	12 (Significant)		

3.8 Recommendations and Follow-Up

3.8.1 In total, we raised just over 100 recommendations across our audits (excluding schools) in 2021-22. Analysis of these recommendations has highlighted the following themes:

Quality Assurance (QA) Frameworks – Six recommendations related to designing or improving QA frameworks. These frameworks had sometimes lapsed due to other priorities during the pandemic and associated changes to workload. However, they will be important to drive continual improvement as the Council returns to ‘business as usual’ and seeks to achieve the ambitions set out in ‘Making Bromley Even Better’.

Data Protection / Information Governance – Aside from the specific audits related to these matters, we raised five recommendations in other audits relating to confidentiality, availability and integrity of information. As noted above, there needs to be collective responsibility for Information Governance to properly minimise risks.

Policies / Communication with staff – We raised eleven recommendations relating to policies and procedures which either needed creating or updating. These are of course a core component of any control framework. We also raised two recommendations around the need to ensure policies and procedures are communicated to staff to ensure that they are effective in practice. Two recommendations related to compliance with specific policies.

Maximising resources – Four recommendations, including three ‘Priority 1’ recommendations, related to safeguarding of assets or efficient use of resources. Making the best use of assets and maximising resources is one of the Council’s five stated Ambitions and is likely to become increasingly important over the short and medium term.

Reconciliations – We have raised only one formal recommendation regarding reconciliations but have also raised similar issues in two pieces of advisory work. The issues highlighted have concerned an absence of reconciliations either between systems or to compare actual to expected amounts. Reconciliations are an important control to identify and correct errors, or to identify and investigate any potential fraud.

Website information – We raised a small number of recommendations regarding the need to improve information available on the Council’s website. The new corporate website went live on 9 June 2022.

3.8.2 Relevant managers agreed the actions to all audit recommendations raised in 2021/22. A detailed account of recommendation follow-up is provided in the Internal Audit and Fraud Progress report as a separate agenda item.

3.8.3 Our focus in 2021/22 was on following up Priority 1 recommendations. Of eight such recommendations either open at the start of the year or made during the year we have fully closed two and have evidenced progress made in a further three. The final three are not yet due. Priority 1 recommendations are attached due significance from Chief Officers, including the Chief Executive and the Director of Finance, with quarterly updates presented to Corporate Leadership Team.

3.9 Risk Management

3.9.1 As set out in the Internal Audit Charter, Internal Audit is responsible for co-ordinating risk management work and developing the risk management approach with the Corporate Risk Management Group. Therefore, in order to maintain independence, any review of the effectiveness of the risk management process is sourced externally and reported to the Director of Finance.

- 3.9.2 In February 2022, the Council's insurance brokers undertook a short review of the Council's risk register structure and format, to ensure this was fit for purpose to manage risks effectively. The review highlighted areas of good practice including that the risk register structure is clear and used consistently, accountable risk owners are defined and risk titles and descriptions are clear.
- 3.9.3 The review suggested three key areas for further development. The first of these was to review and define the Council's risk appetite, so that it is clear whether risks are being managed to an acceptable level, or whether further action is necessary. The second was to ensure that links between risks and strategic objectives are highlighted and the third was to ensure that the overall effectiveness of controls is properly assessed, again so that the Council knows where further action / resource is necessary. All of these suggestions have been discussed with the Director of Finance, the Chief Executive and Corporate Risk Management Group. The Group will be undertaking further work to establish how risk appetite and control effectiveness could be implemented and this will feed into a review of the Risk Management Framework.
- 3.9.4 The existing risk management process has continued to operate as expected during 2021/22, with officer scrutiny provided by Corporate Risk Management Group and Corporate Leadership Team prior to Member scrutiny via Audit Sub Committee and relevant PDS Committees.

3.10 Counter Fraud and Investigations

- 3.10.1 Internal Audit works in partnership with the Royal Borough of Greenwich in respect of Counter Fraud Investigations. A detailed summary of referrals made and work undertaken in 2021/22 is provided in the Internal Audit and Fraud Progress report as a separate agenda item. Although counter fraud work in 2021/22 has identified some control weaknesses, these have been isolated in nature and have not indicated any widespread failing or resulted in significant loss. They have not, therefore, detrimentally impacted on my overall opinion on systems of internal control. There were no reported cases of internal fraud in 2021/22, which indicates a healthy control environment.

3.11 Advisory Work including Covid-related

- 3.11.1 As in 2020/21, much of our additional advisory work in 2021/22 was related to the various Covid grant schemes. Further, two members of the team were seconded to the Council's shielding programme until July 2021. In terms of the business grants, we have been involved with the Additional Restrictions Grant Scheme, the Re-Start Grant Scheme and the Omicron Retail, Hospitality and Leisure Grant Scheme. As detailed in the October 2021 and March 2022 Progress reports to Audit Sub-Committee, our involvement has included reviewing and commenting on risk assessments, providing risk and control advice as schemes are developed and undertaking pre-payment assurance checks including bank account and Companies House verification as relevant. There are no significant issues arising from this work to bring to Members' attention and the work provides further assurance that appropriate controls were in place and operating as intended.
- 3.11.2 Throughout the year, Internal Audit has provided advice on an ad-hoc basis as requested, including in relation to the implementation of the new financial system. Officers have accepted our advice and there are no significant unmitigated risks arising from our ad hoc work that would impact on the annual opinion.

3.12 Head of Audit – Annual Opinion

- 3.12.1 Taking into account the information presented in this report, my overall opinion for the 2021-22 financial year is that there is "**Reasonable**" assurance over systems of risk management,

governance and control. The scale of opinions is provided in **Appendix B** where “Reasonable” is defined as “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.”

3.13 Public Sector Internal Audit Standards (PSIAS)

- 3.13.1 Audit and Risk Management Committee has an important oversight role in the quality and effectiveness of Internal Audit. Members of the Committee must assure themselves that Internal Audit makes a valuable contribution to the organisation’s governance and that stakeholders can place reliance on its conclusions.
- 3.13.2 To facilitate this quality oversight role, Internal Audit is required by professional standards to maintain a Quality Assurance and Improvement Programme, containing a mixture of mechanisms to assess its quality, achievement of objectives and compliance with professional standards. Currently, these arrangements consist of an annual self-assessment of the service against professional standards, key performance indicators, client satisfaction questionnaires and an external assessment (EQA) at least once every five years by a suitably qualified, independent assessor. As agreed by Audit Sub-Committee in March 2022, the EQA will commence shortly and is being delivered through the London Audit Group. The outcomes will be reported to the next available Committee.
- 3.13.3 I have undertaken a self-assessment of the service using CIPFA’s checklist. Overall, I consider that the service is generally conformant with 92 areas and partially conformant with 33. The areas of partial conformance mainly revolve around two key themes; the need to better align audit work to the Council’s risks and strategies and the need to ensure continual service improvement, through both more robust quality assurance and structured processes for skills development. The action plan provided at **Appendix C** summarises the issues and the actions identified to address them, many of which are already underway. Following the EQA, we will update the action plan to reflect any further areas for development highlighted by the assessor. We will report progress against the action plan periodically to this Committee until the actions are closed.
- 3.13.4 We routinely issue client satisfaction questionnaires at the end of every audit, however we have only received four responses in the past financial year. Whilst these responses provided positive feedback and did not highlight any areas for concern, the small return rate is not sufficient for us to gauge the value added by our work or to identify any process improvements. Consequently, we will be endeavouring to improve the response rate over the forthcoming year.
- 3.13.5 Key Performance Indicators (KPIs) for the Internal Audit Service are shown in **Table 2** below. Members are asked to note that as part of the Quality Action Plan (**Appendix C**), these KPIs will be revised over the coming year to provide a more holistic and meaningful overview of Internal Audit’s performance.
- 3.13.6 The KPI out-turns for 2021/22 show that overall, managers have accepted internal audit recommendations and that we have followed up all of the Priority 1 recommendations that have fallen due in the time period. The percentage completion of the Plan is slightly lower than target. This is due to some audits starting late, as agreed with the client, and to some sickness within the team. Audits not completed in time for this annual opinion will be reported to a future meeting of Audit and Risk Management Committee.

Table 2 – Key Performance Indicators

Description	Target	Out-turn for 2021/22
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Percentage of audit plan delivered*	90%	87%
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 and Risk Management Committee	Achieved
Completion of Internal Audit Plan for Audit Sub Committee Approval	By March Audit Sub Committee	Achieved

* This is the number of days for audits fully completed as a percentage of planned days (adjusted for those deferred/cancelled as already agreed with Audit Sub Committee in March 2022.)

4. IMPACT ON VULNERABLE ADULTS AND CHILDREN

Some of the findings identified in audit reports will have implications for both adults and children in respect of audits that have been undertaken in both Adult and Children's Services.

5. TRANSFORMATION/POLICY IMPLICATIONS

Some of the findings identified in the audit reports may have policy implications.

6. FINANCIAL IMPLICATIONS

Some of the findings identified in the audit reports may have financial implications.

7. LEGAL IMPLICATIONS

Under the Accounts and Audit Regulations 2015, the Council is required to maintain an effective internal audit function to provide assurance on the effectiveness of risk management, control and governance processes, taking into account public sector internal auditing standards and guidance. The Annual Opinion is a requirement of these standards.

8. PROCUREMENT IMPLICATIONS

Some of the findings identified in the audit reports may have procurement implications.

Non-Applicable Headings:	Personnel Implications Property Implications Customer Impact Carbon Reduction / Social Value Implications Ward Councillor Views.
Background Documents: (Access via Contact Officer)	None