

AUDIT & STANDARDS COMMITTEE
January 2024

Title: Internal Audit Annual Report 2022/23	
Report of the Strategic Director, Finance and Investments	
Open Report	For Information
Wards Affected: None	Key Decision: No
Report Author: Christopher Martin, Head of Assurance	Contact Details: Tel: 020 8227 2174 E-mail: Christopher.Martin@lbbd.gov.uk
Accountable Strategic Leadership Director: Jo Moore - Strategic Director, Finance and Investments	
Summary	
<p>This report outlines the Internal Audit work carried out for the year ended 31 March 2023.</p> <p>The Internal Audit annual report contains the Head of Assurance Opinion based on the work undertaken in the year. This is “generally satisfactory with some improvements required”.</p>	
Recommendation(s)	
The Committee is recommended to note the contents of the report.	
Reason(s)	
To provide an Internal Audit Opinion on the Council's framework of governance, risk management and control that helps to evidence the effectiveness of systems as set out in the Annual Governance Statement.	

1 Internal Audit Annual Report 2022/23

- 1.1 This report outlines the Internal Audit work carried out for the year ended 31 March 2023.
- 1.2 The report contains the Head of Assurance Opinion based on the work undertaken in the year. This is “*generally satisfactory with some improvements required*”. All work was complete at the time of publishing this report.
- 1.3 The Internal Audit Annual Report is set out at Appendix 1.

2 Legal Implications

Implications completed by: Dr Paul Feild, Senior Governance Solicitor

- 2.1 The Accounts and Audit (England) Regulations 2015 section require that: a relevant authority must ensure that it has a sound system of internal control which—facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk.
- 2.2 Furthermore the Director of Finance has a statutory duty, under Section 151 of the Local Government Act 1972 and Section 73 of the Local Government Act 1985, to ensure that there are proper arrangements in place to administer the Council's financial affairs.
- 2.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against it. We will enhance our provision further by making best use of existing legislation, for example the Proceeds of Crime Act 2002, to ensure that funds are recovered, where possible by the Council.

3 Financial Implications

Implications completed by: Nish Popat, Deputy S151 Officer

- 3.1 Internal Audit is fully funded as part of the Council's Finance Service. It is a key contribution to the overall management and control of the Council and its stewardship of public money. The recommendations and improvements as a result of its findings will be implemented from within existing resources. There are no further financial implications arising from this report.
- 3.2 Should there be any new financial impact such as need for additional funding to implement the recommendations, proper delegations to seek approval will need to be followed in line with the Council's constitution.

4 Other Implications

- 4.1 **Risk Management** – Internal Audit activity is risk-based and therefore supports effective risk management across the Council.
- 4.2 No other implications to report

Public Background Papers Used in the Preparation of the Report:

- None

List of appendices:

- Appendix 1: Internal Audit Annual Report 2022/23

Appendix 1: Internal Audit Annual Report 2022/23

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1. Introduction

This report outlines the work that Internal Audit has carried out for the year ended 31 March 2023.

The Public Sector Internal Audit Standards require the Chief Audit Executive (Head of Assurance) to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit & Standards Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The 2022/23 Internal Audit Plan, approved by the Audit and Standards Committee, included 46 audits, consisting of 35 risk and compliance audits, 10 school audits and a project to follow-up prior year work in schools. 45 audits were delivered, consisting of 35 risk and compliance audits, 9 audits of schools and the schools' follow-up work. Reasons for variations in the plan were reported quarterly to the Audit and Standards Committee.

Internal Audit work was performed in accordance with the Public Sector Internal Audit Standards.

2. Head of Assurance Opinion

I am satisfied that sufficient Internal Audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

My opinion is based on:

- All audits undertaken during the year.
- Any follow up action taken in respect of audits from previous periods.
- Any significant recommendations not accepted and/or addressed by management and the resulting risks.
- The effects of any significant changes in the organisation's objectives or systems.
- Any limitations which may have been placed on the scope or resources of internal audit.
- What proportion of the organisation's audit needs have been covered to date.

My opinion is as follows:

Generally satisfactory with some improvements required.

Governance, risk management and control in relation to business-critical areas is generally satisfactory. However, there are some areas of weakness and non-compliance in the framework of governance, risk management and control which potentially put the achievement of objectives at risk.

Some improvements are required in those areas to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

An explanation of the types of opinion that may be given can be found in Appendix 2.

I would like to take this opportunity to thank Council officers for their co-operation and assistance provided during the year.

3. The 2022/23 Internal Audit service

The in-house team consisted of four substantive posts - an Audit Manager, two Principal Auditors and an Apprentice Auditor. One of the Principal Auditor roles remained vacant throughout the year despite efforts to recruit. The Head of Assurance is the Council's Chief Audit Executive and splits his time between Internal Audit, Counter Fraud, Insurance and Risk Management.

The Internal Audit service continued to be supported throughout 2022/23 by Mazars through the Council's contract with LB Croydon (the 'Apex' framework) and PwC via the contract with LB Barnet (the 'CCAS' framework).

Internal Audit has remained independent of the business in 2022/23. As detailed in the Internal Audit Strategy, additional safeguards have been put in place over areas for which the Head of Assurance is operationally responsible.

4. 2022/23 Internal Audit work conducted

The approved 2022/23 internal audit plan consisted of:

- 35 risk and compliance internal audits.
- 10 audits of schools.
- 1 follow-up project of prior year work in schools.

Four risk and compliance audits were added to the plan in the year as follows:

- Mayor's Charity Account – added in Q1 for an independent examination of the accounts.
- Subletting Leaseholders – added in Q1 because of a prior year 'No Assurance' opinion.
- Supporting Families Programme – added in Q2 because of a potential change to the claim process and risk profile.
- Cyber Essential Plus – added in Q2 because of a revision to the government compliance benchmark.

The following five risk and compliance audits were deferred or cancelled as follows:

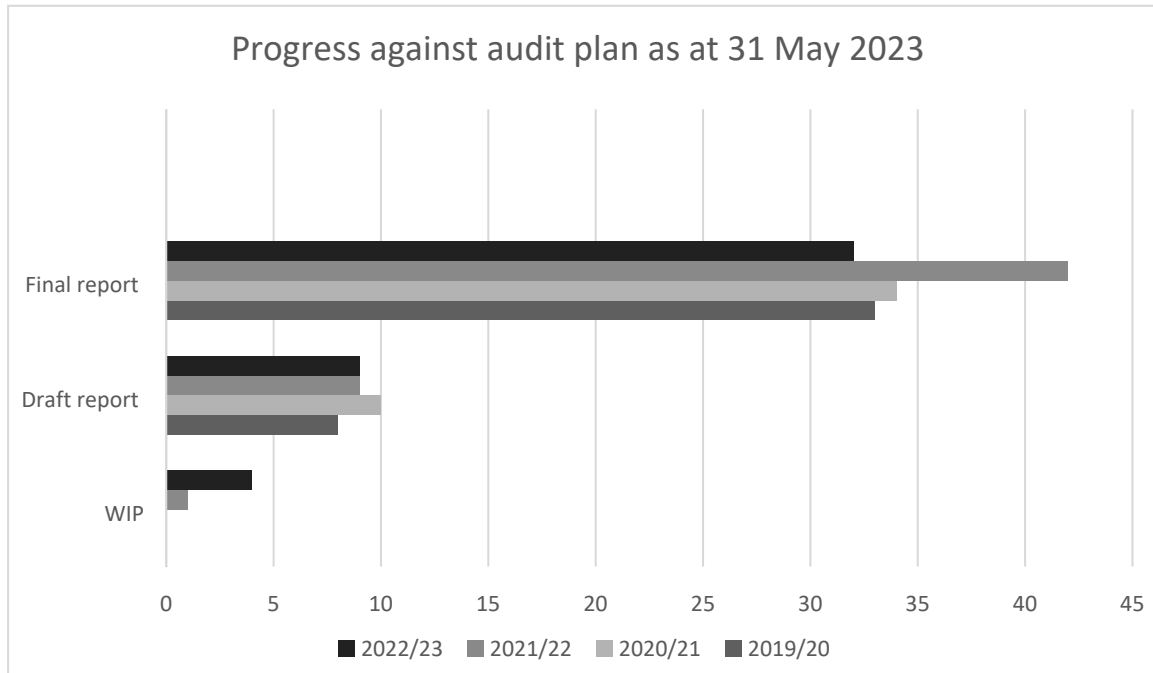
- Server Virtualisation and Management – deleted in Q2 because the Council's reliance on virtual machines (and therefore associated risk) had reduced.
- St Vincent's Catholic Primary School – deleted in Q3 because the school ceased to be maintained by the local authority.
- Housing Rent Setting Review – deferred to 23/24 in Q3 because of partner capacity.
- Housing Health & Safety – deferred to 23/24 in Q4 following discussion with the Regulator of Social Housing.
- Regulatory Services – deferred in to 23/24 in Q4 because of reorganisation.

5. Progress against audit plan

Of the resultant 45 audits (35 risk and compliance and 10 audits of schools), as at 31 March 2023, 22 were at final report and 9 at draft report stage with the remainder still work in progress. The total of 69% at report stage fell short of the target of 80%.

During April and May 2022, further progress was made in finalising draft reports meaning that, as at 31 May 2022, 32 were at final report, 9 at draft report stage and 4 work in progress. This fell short the target of 100% to have reported by this date due to the late stage of the year when significant additional pieces of work were required to be undertaken in-house.

Progress Status	2022/23		2021/22		2020/21		2019/20	
	31 May 2023		31 May 2022		31 May 2021		31 May 2010	
Final Report	32	71%	42	81%	34	77%	33	80%
Draft Report	9	20%	9	17%	10	23%	8	20%
WIP	4	9%	1	2%	0	0%	0	0%
TOTAL	45		52		44		41	



6. Results of the Internal Audit work

Risk and Compliance audits

Internal Audit reports include a summary level of assurance using the following scale:

- Substantial Assurance
- Reasonable Assurance
- Limited Assurance
- No Assurance

Internal Audit findings are categorised Critical, High, Medium and Low risk (or advisory) depending upon the impact of the associated risk attached to the recommendation.

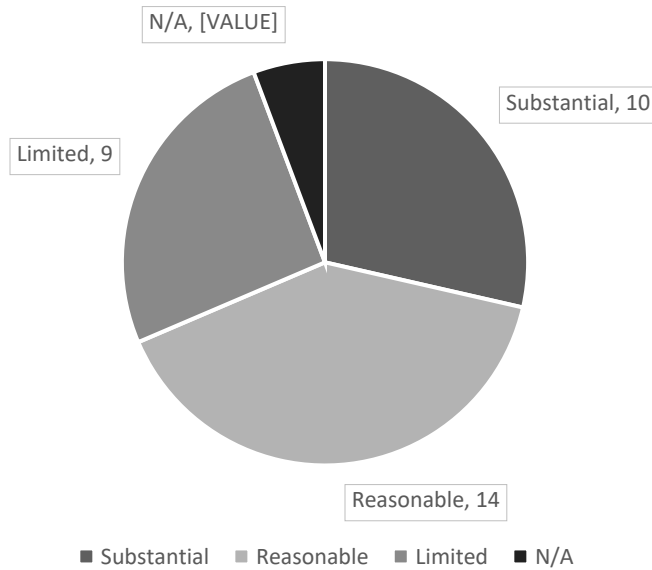
Definitions of the ratings can be found at Appendix 3.

The table below sets out the results of our 35 risk and compliance 2022/23 internal audits:

Audit	Opinion	Number of Findings			
		Critical	High	Medium	Low
Accounts Receivable	Limited Assurance	0	1	1	1
Capital Programme / Budgeting	Limited Assurance	0	0	3	1
Accounts Payable	Limited Assurance	0	3	0	1
Be First - Reside - My Place Relationship	Limited Assurance	0	1	4	0
Leasehold Management - Service Charges	Limited Assurance	0	2	3	0
Right to Buy Valuations	Limited Assurance	0	1	2	0
Payroll & Expenses	Limited Assurance	0	2	2	1
Cyber Essentials Plus	Limited Assurance	0	2	7	2
Enforcement Bailiff System Implementation	Limited Assurance	0	1	11	0
Licencing	Reasonable Assurance	0	0	1	0
Homelessness	Reasonable Assurance	0	0	3	0
Pension Fund Investments	Reasonable Assurance	0	0	1	1
Electoral Program	Reasonable Assurance	0	0	1	1
Waste Collections - Trade Waste	Reasonable Assurance	0	0	2	0
Housing Register & Allocation Review	Reasonable Assurance	0	0	2	2
Geographical Information System Review	Reasonable Assurance	0	0	6	0
Waste Management - Staff Health & Safety	Reasonable Assurance	0	0	3	1
Frizlands Workshop: Heavy Vehicles & Drivers Safety	Reasonable Assurance	0	0	3	2
Direct Payments	Reasonable Assurance	0	0	4	0

Passenger Transport – SEN	Reasonable Assurance	0	0	2	2
Sickness & Absence Management	Reasonable Assurance	0	0	1	0
Housing Voids Management	Reasonable Assurance	0	0	5	0
Subletting Leaseholders	Reasonable Assurance	0	0	2	0
Trading Standards	Substantial Assurance	0	0	1	2
Mayor's Charity Account	Substantial Assurance	0	0	0	0
Planning for School Places	Substantial Assurance	0	0	1	0
Supporting Families Programme	Substantial Assurance	0	0	0	0
Special Education Needs & Disability - Future Service Needs	Substantial Assurance	0	0	0	0
Early Help KPI Monitoring & Reporting	Substantial Assurance	0	0	0	0
Adult Care Deferred Payments	Substantial Assurance	0	0	1	1
General Ledger & Budgetary Control	Substantial Assurance	0	0	3	3
ERP Post Implementation Review	Substantial Assurance	0	0	2	1
Right To Work	Substantial Assurance	0	0	0	0
LAC Savings Accounts	N/A	0	0	0	0
Domestic Violence Service - Housing Allocations	N/A	0	0	0	0
Total		0	13	77	22

2022/23 risk and compliance audits - report classifications



We issued nine Limited Assurance opinions in the year as follows:

Title	Summary of findings <i>and current progress to address reported high-risk findings</i>
<p>Accounts Receivable</p> <p>The objective of this audit is to evaluate the design and test the operating effectiveness of key controls in place for the Accounts Receivable process relevant to the potential risks.</p>	<p>Limited Assurance</p> <p>This review identified that while debtors are monitored on an on-going basis by the General Income team, not all debts have historically been effectively chased and this has led to a build-up of aged debt. There is an automated solution which is ready to be deployed that will assist in chasing debtors but this cannot be used until the back log of aged debt has been eliminated as some of this debt may not be appropriate for automated chasing.</p> <p>There is currently a plan in place to write off some of the aged debt and reduce the volume on the debtors list. However, until this is complete there is limited chasing of debts further increasing the build-up of aged debt.</p> <p>We identified one high risk finding:</p> <ul style="list-style-type: none"> Debt collection – identify an action plan to get automated debt chasing switched on as soon as possible. This should include a review of whether its current method of manually chasing all debts before automation is feasible or if bulk write off or transfers of debts are needed. <p><i>Agreed action completed.</i></p>
<p>Accounts Payable</p> <p>The objective of this audit was to evaluate the control design and test the</p>	<p>Limited Assurance</p> <p>New supplier requests should be made by the services and approved by the budget holder who should verify the details of the supplier to ensure it is valid and accurate. Testing identified that during our audit period May 2022 to February 2023 there was a lack of controls in place around</p>

<p>operating effectiveness of key controls in place relating to the Accounts Payable process.</p>	<p>the approval of new suppliers. This is because the budget holder approval step has not been configured into the e5 system. Instead, the requests are submitted directly to the Accounts Payable team to approve and set-up. The AP team are currently approving but have no knowledge of the supplier or if the details supplied are appropriate. We also note that due to migration errors arising after the implementation of e5, a large number of suppliers were not successfully migrated into e5 from Oracle, therefore they had to be manually added onto the e5 system. 12 of 25 new suppliers tested had not been processed in accordance with policies and procedures.</p> <p>Requests for supplier amendments are made via an 'Amendment to Supplier/Payee Payment Details' form, which is completed and signed off by the requestor and emailed to the Accounts Payable team alongside supporting documentation to validate the change.</p> <p>The form and supporting documentation are reviewed by the AP team and the change is actioned or rejected as appropriate. We requested a report from e5 of all changes to supplier standing data but were unable to obtain an appropriate report for sampling. This meant that we were unable to sample test changes to standing data including changes to bank details. Management confirmed that there is no exception reporting on changes to supplier standing data or any form of periodic monitoring of changes.</p> <p>All Purchase Orders need approval in line with the Council's financial regulations to ensure that they are appropriate purchases for the Council to be making. This is done through e5 with the system recording the identity of the approver. A data led review of the approvers for all purchase orders identified that 3 Purchase Orders (totalling £12,018) had been approved by the 'e5 Master Approver' generic account. It was not possible as a result to identify who this approver was and the appropriateness of this approval. Access to this generic account is not restricted to a single person. Purchase Order cost code mapping is carried out by Finance. The generic coding is flagged by Procurement who then map the code to the appropriate budget holder but this cannot be applied retrospectively, so Procurement have gained permission to authorise.</p> <p>We identified 3 high risk actions:</p> <ul style="list-style-type: none"> • New suppliers - update e5 to ensure that budget holders are part of the workflow for new suppliers and in the interim period ensure that all set-ups are supported by appropriate documentation. • Exception reporting - engage with e5 to develop a report that allows identification of changes to standing data. Conduct spot checks of changes. • Generic accounts - ensure generic accounts are deactivated. <p><i>Implementation of agreed actions will be tested during the 2023/24 audit in Q4.</i></p>
<p>Capital Programme / Budgeting</p> <p>The objective of this audit was to evaluate the controls design and test the</p>	<p>Limited Assurance</p> <p>The Council has a Capital Programme in place with a value of just under £400million in FY2023. The main part of this relates to the large investment the Council is making in new homes, as part of the Council's Investment Strategy but also includes some other expenditure to support council operations such as new schools. This review identified</p>

<p>operating effectiveness of key controls in place for the Capital Budgeting programme relevant to the potential risks for each scope area.</p>	<p>that while there is a clear governance structure in place to oversee the delivery of the Council's Capital programme through an Assets and Capital Board (ACB) there are some issues with the quality of the reporting into this committee, for example, the financial reporting is not subject to any formal scrutiny or sign off before it reaches this group limiting its accuracy. Risks are also not being formally reported to this committee and no risk register is maintained for the Council's Capital Programme.</p> <p>We identified three medium risk findings:</p> <ul style="list-style-type: none"> • Budgets and forecasting – The financial forecasts for each of the projects should be subject to sufficient challenge before being passed onto Finance. However, we noted that when the relevant project manager extracts the forecast from the Be First Project Tracker, this extract goes directly to Finance and so there is no oversight by the programme directors or budget holders. This has led to forecasts being submitted without sufficient explanation of variances from budget and Finance are not informed in a timely manner of any developing financial issues. • Risk management – The Council should maintain visibility over the status of each of the key risks relating to the Council's Capital Programme and individual projects, where appropriate. We identified that while the Council identifies the main risks facing a project in their initial proposal to Cabinet, the risks are not monitored throughout the duration of the project. This limits the Council's ability to respond to an issue if a risk were to materialise as they may not have appropriate mitigations in place. • Action tracking – The Assets and Capital Board (ACB) oversees the Council's Capital Programme. It reviews key management information and produces actions to address any issues. Currently while an action tracker is in place this is not being regularly updated or actions being closed to ensure that any issues identified are addressed. <p><i>Two agreed actions completed.</i></p> <p><i>Risk Register due for review January 2024.</i></p>
<p>Be First – Reside – My Place Relationships</p> <p>The objective of this audit was to evaluate the control design and test the operating effectiveness of key controls in place for the relationship between Be First, Reside, My Place and BD Energy relevant to the potential risks.</p>	<p>Limited Assurance</p> <p>The relationship between Be First and Reside was last looked at by Internal Audit in 2019. There has been considerable turnover in staff since that point and we note that as a result some controls such as the Handover Steering Group, the governance forum with responsibility for overseeing the handover process, that was in operation in 2019 are no longer operating. While other projects such as the development of a single RACI (responsible, accountable, consulted, and informed) matrix that were in progress in 2019 but were not completed and have started again under new staff members. The above indicates a dependency risk on key members of staff that has crystallised as they have moved on. The review has identified that this still appears to be a significant issue with the New Build Asset Coordinator, who is the Council's operational lead for handovers, being central to the process and also being on a short-term secondment from another part of the Council. This issue needs to be addressed to prevent delays in the handover process, which may result in loss of rental income from new properties.</p>

	<p>We have identified one high risk issues during this audit:</p> <ul style="list-style-type: none"> • High dependency on key staff involved in the handover process – The handover process between Be First and Reside is managed by a small number of people and is based heavily on the strength of the relationships between them. There is limited formally documented policies and procedures in place or contingencies arrangements to deal with staff leaving or being absent. If key individuals were to leave, then the process is likely to be set back considerably, potentially delaying handovers. <p><i>Agreed actions implemented. Further review 2024/25.</i></p>
<p>Leasehold Management - Service Charges</p> <p>The objective of this audit was to provide an independent review of the adequacy and effectiveness of the control environment relating to the Council's Leasehold Management - Revenue & Capital Service Charges.</p>	<p>Limited Assurance</p> <p>Audit was informed that currently there is no key performance indicator for the recovery of debts relating to Section 20 major works. If there are no expected performance standards set, officers may not know what is expected of them or not understand what constitutes poor, acceptable and excellent performance. This could have an associated effect on recovery rates of Leaseholders' contributions. Management are still trying to unravel what can be charged for and what can't be charged for some of the section 20 works carried out. As such no collection has been carried for the period of the audit. On accounts that can be recovered this is being collected through the reserve funds.</p> <p>We identified one high risk finding:</p> <ul style="list-style-type: none"> • Adequate controls should be implemented over the recovery arrangements for revenue and capital service charges for Leaseholder including: <ul style="list-style-type: none"> • electronic administration of debt recovery arrangements. • the facility to extract reports regularly from the system which identify the level of income receivable. • aged debt reports being compiled and filtered into corporate debt monitoring arrangements. • the facility to generate automatic reminders to Leaseholders periodically for unsettled accounts; • the standardisation of the recovery arrangement with detailed timeframes and level of arrears. <p>From the above process key performance indicators (KPI) should be set to measure the level and value of debt recovery. KPI reports should then be produced on monthly basis for senior management.</p> <p><i>Agreed actions due for completion by March 2024.</i></p>
<p>Right To Buy Valuations</p> <p>The objective of this audit was to evaluate the control design and test the operating effectiveness of key controls in place for Right to Buy relevant</p>	<p>Limited Assurance</p> <p>The Right to Buy process has been in place at the Council for a significant period but has recently come under new management. This has flagged some issues that the Council is now seeking to address. This includes a lack of detail being provided by surveyors valuing properties and a subsequent uncertainty about the accuracy of valuations. This may lead to the Council under valuing it's properties during sales at a loss to the Housing Revenue Account. We did identify some good practice including proactive checking of all cash used in purchases to prevent properties being used for the purposes of money</p>

<p>to the potential risks for each scope area.</p>	<p>laundering and applications being processed in a timely manner with a clear system to track this.</p> <p>We identified one high risk finding. This is:</p> <ul style="list-style-type: none"> • Documentation of valuations is not sufficient – The documents provided as part of the valuation of properties for Right to Buy are not sufficient to assess the reasonableness of the valuations made. Key things that the Council is not getting from the surveyor include the assumptions and adjustments made to get from an average price in an area to the valuations, the criteria used to select comparable properties, the methodology used for the valuation and evidence of the surveyors' experience and qualifications. <p><i>Agreed actions now complete.</i></p>
<p>Cyber Essential Plus</p> <p>The objective of this audit was to assess the design and operating effectiveness of the cybersecurity controls in place at London Borough of Barking and Dagenham (LBBD), using the National Cybersecurity Centre (NCSC) Cyber Essentials control framework as a baseline to manage cybersecurity risks.</p>	<p>Limited Assurance</p> <p>Cybersecurity remains a key risk for organisations, with recent increases in the frequency and sophistication of cyberattacks. Rapid digitisation and changes in working practices brought on by the Covid-19 pandemic have introduced new risks that organisations are required to understand and manage. Although some attacks are complex, many can be avoided by taking simple steps to secure the IT environment. The NCSC Cyber Essentials control framework provides guidance that helps fulfil these needs and is advocated as good practice by the UK Government.</p> <p>Only fully supported operating systems, such as Microsoft Windows, should be installed on devices, such as workstations and AVDs, to ensure that important security updates and patches are deployed. Out of support operating systems will not receive security updates to fix vulnerabilities from the vendor. Vulnerabilities can be exploited by attackers as part of ransomware attacks, where critical data is inaccessible and held to ransom using encryption. Unsupported devices may not have the latest security updates installed to remediate vulnerabilities, which could be exploited, resulting in financial/data loss and/or business disruption.</p> <p>Administrator access to the firewall consoles as well as to the servers is privileged access and should be kept secure via Multi Factor Authentication (MFA). Not using MFA exposes an organisation to severe cyber-attacks such as Brute Force attacks, where the attacker using automated tools, enters many passwords or passphrases in quick succession with the hope of eventually guessing correctly. Weak administrator password controls can be bypassed if there is no MFA in place, leading to potential unauthorised access to devices such as firewalls and servers, thus causing business disruption as well as data/financial loss.</p> <p>We identified two high risk actions:</p> <ul style="list-style-type: none"> • Management should ensure that the unsupported devices are upgraded on a timely basis. • Management should assess the feasibility of enabling MFA for access to firewalls and servers. If it is feasible to do so, then MFA should be implemented for access to all such devices.

	<p><i>Agreed actions complete.</i></p>
<p>Payroll and Expenses</p> <p>The objective of this audit is to evaluate the controls design and test the operating effectiveness of key controls in place for Payroll and expenses, relevant to the potential risks for each scope area.</p>	<p>The Council has just implemented a new payroll system, iTrent. This has changed the way some processes operate and means that expenses are now being processed through the payroll system, which was not previously the case. This review has identified concerns with the set up of the new system and associated processes. The biggest areas of concern are the failure of the new system to enforce the correct approvals of expenses and errors found in the final payment calculations for leavers. There is a need for some significant updates to processes to ensure expenses are correctly approved and that the quality issues with leaver calculations are addressed.</p> <p>This review identified two high risk findings:</p> <ul style="list-style-type: none"> • Expenses – The expenses process is currently operating without key controls to check that submitted expenses are approved by someone at the correct level, have receipts and that the correct policy is followed. We have additionally noted a lack of controls to ensure that the expenses policy is compliant with tax law and that there is a process in place to recover any over payments identified. • Leavers - The Payroll team were unable to provide evidence of the date that five leavers had been removed from the payroll. In addition for two of the leavers tested we identified discrepancies in the calculation of the final payment or between the calculation and the final amount paid. <p><i>Implementation of agreed actions will be tested during the 2023/24 audit in Q4.</i></p>
<p>Enforcement Service – Bailiff System implementation</p> <p>The objective of this audit was to evaluate and report on the control design and test the operating effectiveness of key controls in place over the implementation process for the enforcement system.</p>	<p>A contract for a new Enforcement System was awarded to Lateral Technology Ltd in February 2022. A sealed and signed contract was put in place in June 2022 for 2 years plus 24-month extension subject to review on G-Cloud.</p> <p>This review identified one high risk finding:</p> <ul style="list-style-type: none"> • A generic account on the system is a computer account that is not uniquely owned by an individual user while default local user accounts are built-in accounts that are created automatically when a system is installed. These accounts can be used by several individuals who share the same password. The list of users’ accounts reviewed by audit identified 4 generic accounts within the system. Management should ensure that all Generic Accounts are removed, Default Accounts disabled and replaced with individual user accounts or restricted group accounts with specific purpose that individual users could be added. <p><i>Agreed actions complete.</i></p>

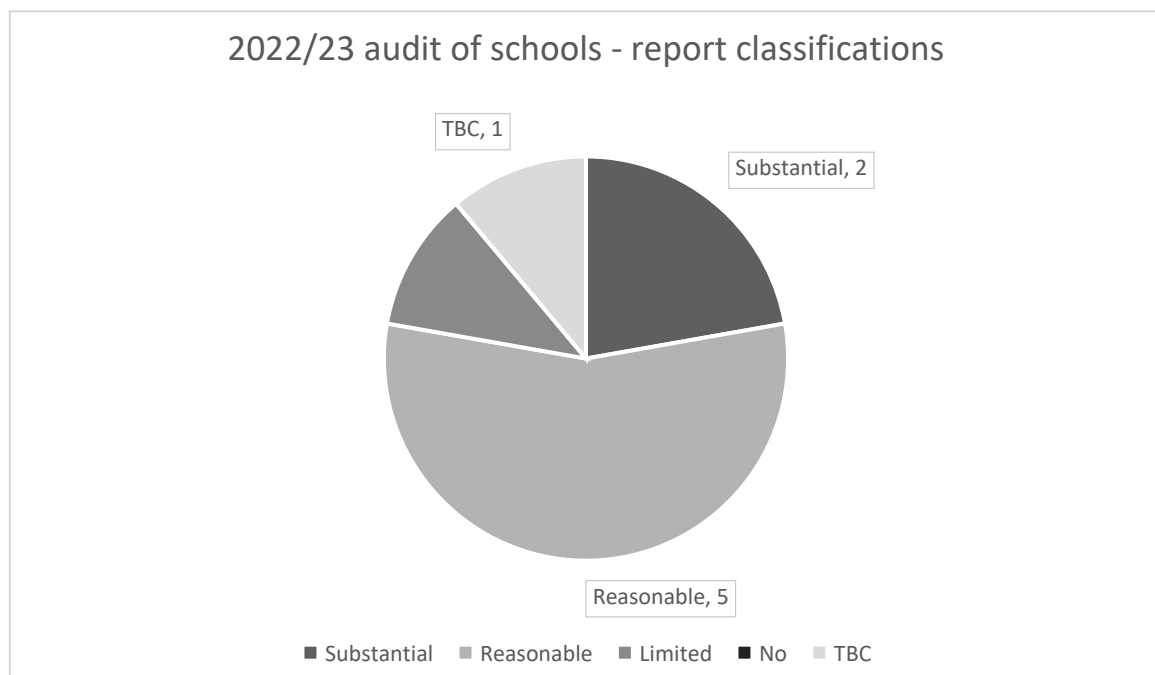
A critical risk is defined as requiring immediate and significant action. A high risk is defined as requiring prompt action to commence as soon as practicable where significant changes are necessary. Management are expected to implement all critical and high-risk recommendations by the agreed target dates. Internal Audit tracks management progress by way of a chase up or follow up to the audit client accordingly. Slippage in implementing agreed actions does occur and requires management to instigate revised targets and consider ways to mitigate the identified risks.

Audits of Schools

Schools within the Borough are audited on a risk basis. The objective of these audits is to ensure that the schools have adequate and effective controls with regards to the financial management and governance of the school.

The table below sets out the results of the 2022/23 Internal Audit work auditing 9 schools:

School	Opinion	Number of findings			
		Critical	High	Medium	Low
William Ford School	Limited	0	2	9	6
All Saints Catholic School	Substantial	0	0	1	0
Rush Green Primary School	Reasonable	0	1	3	0
William Bellamy Primary School	Reasonable	0	0	3	0
Dorothy Barley Infant School	Reasonable	0	0	5	0
Eastbrook Comprehensive School	Substantial	0	0	1	2
Henry Green Primary School	Reasonable	0	0	4	2
John Perry Primary School	Substantial	0	0	0	0
Northbury Primary School	Reasonable	0	0	1	1
Prior Year Follow-up Work	N/A	-	-	-	-
TOTAL:		0	3	27	11



We issued one “Limited Assurance” school report in the year as follows:

Title	Summary of findings and current progress to address reported high-risk findings
<p>William Ford Junior School</p> <p>The objective of this audit was to ensure that William Ford Junior School has adequate and effective controls with regards to the financial management and governance of the school.</p>	<p>This school was previously audited the school in November 2021, achieving an assurance rating of ‘No Assurance’. While we have raised a number of findings, overall the school have demonstrated progress from the November 2021 review. Our previous report raised 19 recommendations, of which 7 were classed as high risk, 5 as medium, and 7 as low. This latest fieldwork indicates an improvement to two high risk recommendations.</p> <p>The School Development Plan (SDP) for 2021/2022 has been derived from the priorities from the previous year’s SDP. The Headteacher monitors progress of the SDP through the use of formal evaluation twice a year and key areas are now monitored by governors. At the request of the new Headteacher, the Local Authority commissioned a full governance review from an independent consultant in October 2020, which resulted in an action plan (17 points) being implemented. Observation of the action plan confirmed that there are several areas of concern across how the governing body operate, in particular around Governor training and development. We have made recommendations in relation to governance where relevant to the scope of our testing.</p> <p>We also noted that the school has, with approval of the FGB, set a financial approval limit for the Head Teacher of £10,000. While we have raised no recommendation in respect to this, in other schools we have noted that expenditure rarely reaches this level, and the school may therefore wish to keep this under review and revise the approval threshold to provide greater oversight of procurement. In two out of nine audit areas which have been reviewed, the control environment in place met expected standards.</p> <p>We identified two high risk findings:</p> <ul style="list-style-type: none"> • Income and Expenditure Records and Banking – For one of the procurement sample requiring quotes as part of the Value for Money process, no evidence of quotations or approval could be provided • Staffing – No assurance on the soundness and adequacy of the external payroll provider’s systems has been provided. <p><i>Agreed actions now complete.</i></p>

7. Internal Audit Performance

Purpose	Target	Performance & RAG Status	What it measures
Output Indicators (Efficiency)			
% of 2021/22 Audit Plan completed (Audits at draft report stage)	>25% by 30/09/22	13% - RED	Delivery measure
	>50% by 31/12/22	45% - AMBER	
	>80% by 31/03/23	69% - RED	
	100% by 31/05/23	91% - AMBER	
Meet standards of Public Sector Internal Audit Standards	Substantial assurance or above from annual review	Confirmed * - GREEN	Compliant with professional standards
Outcome Indicators (Effectiveness - Adding value)			
High Risk Recommendations not addressed within timescales	<5%	10% - AMBER	Delivery measure
Overall Client Satisfaction	> 85% satisfied or very satisfied over rolling 12-month period	100% - GREEN	Customer satisfaction

* Internal Audit for 2022/23 was being provided by a combination of the in-house team, Mazars LLP and PwC LLP. All teams have confirmed ongoing compliance with the Public Sector Internal Audit Standards.

Quality and improvement programme

Internal Audit quality has been maintained through adequate supervision and review processes in the year.

Quality and consistency has been improved through use of revised Terms of Reference and report templates and stability has been achieved through the appointment of a permanent Audit Manager.

Plans are in place to strengthen quality in 2023/24 particularly through further recruitment to the in-house team and the establishment of a London-wide Internal Audit Pathway for trainees.

8. Appendices

1: Limitations inherent to the Internal Auditor's work

We have undertaken internal audit subject to the following limitations:

- **Internal control:** Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overruling controls and the occurrence of unforeseeable circumstances.
- **Future periods:** Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the following risks:
 - The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes.
 - The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

Opinion







My opinion is based solely on the work undertaken as part of the agreed Internal Audit plan and agreed changes thereto. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence, management and the Audit & Standards Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

2: Opinion types

The table below sets out the types of opinion that I have considered, along with an indication of the types of findings that may determine the opinion given. I apply my judgement when determining the appropriate opinion, so the guide given below is indicative rather than definitive.

Opinion	Indication of when this type of opinion may be given
Satisfactory	<ul style="list-style-type: none"> • A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and • None of the individual assignment reports have an overall report classification of either high or critical risk.
Generally satisfactory with some improvements required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are not significant in aggregate to the system of internal control; and/or • High risk rated weaknesses identified in individual assignments that are isolated to specific systems or processes; and • None of the individual assignment reports have an overall classification of critical risk.
Major improvement required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or • High risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or • Critical risk rated weaknesses identified in individual assignments that are not pervasive to the system of internal control; and • A minority of the individual assignment reports may have an overall report classification of either high or critical risk.
Unsatisfactory	<ul style="list-style-type: none"> • High risk rated weaknesses identified in individual assignments that in aggregate are pervasive to the system of internal control; and/or • Critical risk rated weaknesses identified in individual assignments that are pervasive to the system of internal control; and/or • More than a minority of the individual assignment reports have an overall report classification of either high or critical risk.
Disclaimer opinion	<ul style="list-style-type: none"> • An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either: <ul style="list-style-type: none"> - Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or - We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.

3: Definition of risk categories and assurance levels

Risk rating	
Critical 	<p>Immediate and significant action required. A finding that could cause:</p> <ul style="list-style-type: none"> • Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale & service performance (e.g. mass strike actions); or • Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny (i.e. front-page headlines, TV). Possible criminal or high profile civil action against the Council, members or officers; or • Cessation of core activities, strategies not consistent with government's agenda, trends show service is degraded. Failure of major projects, elected Members & Senior Directors are required to intervene; or • Major financial loss, significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council. Critical breach in laws and regulations that could result in material fines or consequences.
High 	<p>Action required promptly and to commence as soon as practicable where significant changes are necessary. A finding that could cause:</p> <ul style="list-style-type: none"> • Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale & performance of staff; or • Significant impact on the reputation or brand of the organisation. Scrutiny required by external agencies, inspectorates, regulators etc. Unfavourable external media coverage. Noticeable impact on public opinion; or • Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome medium-term difficulties; or • High financial loss, significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences.
Medium 	<p>A finding that could cause:</p> <ul style="list-style-type: none"> • Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale & performance of staff; or • Moderate impact on the reputation or brand of the organisation. Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage; or • Significant short-term disruption of non-core activities. Standing orders occasionally not complied with, or services do not fully meet needs. Service action will be required; or • Medium financial loss, small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences.
Low 	<p>A finding that could cause:</p> <ul style="list-style-type: none"> • Minor injuries or stress with no workdays lost or minimal medical treatment, no impact on staff morale; or • Minor impact on the reputation of the organisation; or • Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule; or • Handled within normal day to day routines; or • Minimal financial loss, minimal effect on project budget/cost.
Level of assurance	
Substantial 	<p>There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice.</p>
Reasonable 	<p>An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses, but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.</p>

<p>Limited</p> <p>●</p>	<p>There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.</p>
<p>No</p> <p>●</p>	<p>There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.</p>