

## THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

### AUDIT AND TRANSPARENCY COMMITTEE MEETING 8 MARCH 2021

#### REPORT BY THE SHARED SERVICES DIRECTOR FOR AUDIT, FRAUD, RISK AND INSURANCE

##### INTERNAL AUDIT PLAN 2021-22

The purpose of this report is to inform the Audit and Transparency Committee of the draft Internal Audit Plan for 2021-22, which is based on the Strategic Audit Plan and current risks.

**FOR REVIEW**

### 1. EXECUTIVE SUMMARY

- 1.1 The Strategic Audit plan has been reviewed to document significant, persistent risks that the Council faces and the business areas to be covered over a five-year period. The Strategic Plan will support the annual planning process and ensure that internal audit continues to provide assurance over the breadth of the Council's operations.
- 1.2 The Plan has been prepared following consultation with Directors and takes into account the Council's corporate risks and priorities.
- 1.3 To ensure that the Annual Audit Plan is more responsive to changing risks and challenges, it has been developed as a '3 plus 9-month' Plan. This approach allows for the first three months to be identified in detail with the remaining nine months being more flexible to suit the needs of the Council at the time. The Plan will be reviewed and updated following discussions with Directors, taking into account changing risks and priorities. The revised Plan will be reported to the Committee on a quarterly basis.

### 2. RECOMMENDATIONS

- 2.1 The Committee review the draft Strategic Audit Plan as set out in **Appendix 1** and consider whether it covers the persistent risks that the Council faces and outlines the business areas of themes that need to be considered as part of a five-year Plan.
- 2.2 The Committee review the draft of the Annual Audit Plan, as set out in **Appendix 2**, and comment on the audit work due to be undertaken in the first quarter of 2021/22 and identify any specific audits to be considered during the coming year.

### 3. BACKGROUND

- 3.1 The Council's internal audit service is provided by the Shared Services Internal Audit Team. Audits are undertaken by the in-house audit team or by the external contractors to the service, in accordance with the Internal Audit Charter. Internal Audit is required to provide the S151 Officer, senior management and the Audit

and Transparency Committee with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control arrangements. The Audit and Transparency Committee are provided with updates at each meeting on the progress and outcomes from the internal audit work completed in the period.

- 3.2 A primary role of internal audit is to provide assurance that the Council has robust systems of governance and control place to achieve its priorities and meet its statutory responsibilities. The Council's internal and external environment continues to evolve and the way in which the Internal Audit Service is delivered must change to keep pace with this. The traditional audit approach of planning a full year of audits in advance has become unsuitable as the original plan fails to keep pace with the organisation's needs.
- 3.3 As a result, we are implementing the following changes to the way in which we deliver the Internal Audit Service:
- A Strategic Audit Plan is being developed which documents the significant, persistent risks that the Council faces and outlining, in broad terms, themes to be covered over a five-year period. This will help to ensure that internal audit does not become a purely reactive function. A draft of the Strategic Audit Plan is attached as **Appendix 1**;
  - We will work with a '3 plus 9' Annual Audit Plan – planning out the next three months in detail, taking into account key risks and priorities, whilst keeping the remaining nine months more flexible. The plan will then be revisited each quarter to confirm the following quarter's work and will include sufficient audit coverage to enable an overall annual opinion to be reached on the Council's control framework;
  - New reporting formats will be developed which are more appropriate to the work being undertaken, such as succinct reports for short/focused reviews.
  - The option of faster paced audit work, through more focused coverage or less formal reporting, will be available where the traditional approach would not provide assurance as quickly as needed; and,
  - We will seek to increase attendance on 'working groups' where real time input to projects and initiatives would be useful.
- 3.4 The draft '3 plus 9' Internal Audit Plan for 2021/22 is attached as **Appendix 2** to this report. It should be noted that this plan is an early draft, intended to focus on the work planned in the first quarter of 2021/22 and some changes may be required once all of the planning meetings have been held.

**David Hughes**

**Shared Services Director for Internal Audit, Fraud, Risk and Insurance**

**Background papers:**

Internal Audit Planning Files

Risk Registers

**If you have any queries about this Report please contact:**

**Moira Mackie on 0780 0513192**

**Email: [Moira.Mackie@rbkc.gov.uk](mailto:Moira.Mackie@rbkc.gov.uk)**

**or**

**David Hughes on 07817 507695**

**Email: [David.Hughes@rbkc.gov.uk](mailto:David.Hughes@rbkc.gov.uk)**

**Draft Strategic Internal Audit Plan**

The Strategic Audit Plan sets out the medium-term direction of the Internal Audit service. This five-year plan outlines the priorities of the service and how Internal Audit can continue to provide an adequate level of assurance whilst taking account resource limitations and the changing risk landscape.

The Strategic Plan is supported by the Audit Charter, which sets out the roles and responsibilities of Internal Audit, and the Annual Audit Plan which outlines the internal audit work which will be undertaken each year.

All Local Authorities have faced significant financial reductions in recent years and increasing demand for services. All Council services have seen a reduction in the resource available to them and this in turn has an impact on the control environment. In addition, local authorities are taking more risks as they explore innovative solutions in order to bridge the funding gap and transform the organisation. It is important that the Internal Audit service continues to evolve to ensure that it remains an effective assurance provider.

This Strategic Audit Plan has been prepared to document significant, persistent risks that the Council faces and outlines, in broad terms, themes to be covered. The intention of the five-year period of this plan is to ensure that, in becoming more agile, internal audit does not become a purely reactive function and continues to provide assurance over the entire breadth of the Council's operations.

The Strategic Audit Plan will be aligned where possible to the Council's priorities and risks.

Area of Review	Significant Persistent Risks	Five-year Approach
<p><b>Corporate Resources</b> Back office and support functions including Finance, HR, business continuity, risk management, health and safety and procurement</p>	<ul style="list-style-type: none"> <li>• Internal and external fraud</li> <li>• Poor Financial management</li> <li>• Risks to staff safety and welfare</li> <li>• Value for money not achieved in commissioning, procurement and contract management</li> <li>• Council funds not invested effectively</li> <li>• Staff do not have the skills, resources or support to discharge their roles effectively</li> <li>• Council unable to cope with business disruption or emergencies.</li> </ul>	<p>At least one full audit of each key financial system and ongoing testing of key controls every year.</p> <p>Cyclical Coverage of Revenues and Benefits over a three-year period.</p> <p>At least one audit of each key HR Function</p> <p>Work on other functions, themes or departments based on conversations with management, assessment of risk and other sources of assurance.</p> <p>Annual coverage of management of individual procurements and contracts based on review of forward plans, perceived risk, significance and discussions with management.</p>

Area of Review	Significant Persistent Risks	Five-year Approach
<p><b>Governance, Partnerships and Transformation</b> Council governance functions, key strategic partnerships, commercial ventures and transformation programmes and projects.</p>	<ul style="list-style-type: none"> <li>• Governance failures, bringing the Council into disrepute or leading to the aims and objectives of the Council not being achieved.</li> <li>• Programmes and projects are not managed effectively within the required budget and timescales, delivering all expected benefits.</li> <li>• Ill-advised strategic partnerships or ventures entered into or poor governance arrangements lead to objectives not being achieved.</li> <li>• Information requests (such as SARs and FOIs) are not responded to promptly and appropriately.</li> <li>• Statutory functions such as Registrars and Electoral Services are not discharged effectively</li> <li>• Commercial property portfolio is not managed effectively.</li> </ul>	<p>At least one full audit of SARS, FOIs, Members Enquiries and Complaints.</p> <p>Annual coverage of Health and Safety based on discussions with management and understanding of risk areas.</p> <p>At least one audit of Gifts, Hospitality and Declarations of Interest.</p> <p>At least one audit of the Registrars Service.</p> <p>Annual audits of specific areas of governance based on discussions with management and understanding of risk.</p> <p>Coverage of each significant Partnership, Joint Venture, Council Owned Company or Commercial Venture.</p> <p>Annual Coverage of Risk Management at either a corporate, thematic or departmental level.</p>
<p><b>Information Management &amp; Technology</b> Management of data, compliance with the Data Protection Act /GDPR. Information technology including cyber security, asset management and disaster recovery.</p>	<ul style="list-style-type: none"> <li>• Loss of information, data breaches or inappropriate disclosure.</li> <li>• Loss of access/information due to systems failure or cyber attack.</li> <li>• Breach of access controls.</li> </ul>	<p>Periodic IT audit needs assessment and frequent discussions with management to understand risk areas.</p>

Area of Review	Significant Persistent Risks	Five-year Approach
<p><b>Housing</b> Housing Services provided to Council Tenants, Leaseholders and those at risk of homelessness.</p>	<ul style="list-style-type: none"> <li>• Properties are either acquired or disposed of that are not in line with the Council’s strategy or value for money is not achieved.</li> <li>• Rent payments are not recovered promptly and completely</li> <li>• Council housing is acquired through fraud or is used inappropriately</li> <li>• Housing stock is not maintained in a satisfactory condition leading to health and safety hazards and increased reactive maintenance.</li> <li>• Risks to the health and safety of residents are not identified and addressed promptly.</li> <li>• Leaseholders are not consulted and correctly charged for any works affecting their property.</li> <li>• Homeless and those at risk of becoming homeless in the borough do not receive the support they require.</li> </ul>	<p>At least one full audit of key Housing functions such as Rents, Homelessness, Housing Allocations, Temporary Accommodation, Tenancy Management, Leaseholder Services.</p> <p>More frequent coverage of both responsive repairs and planned repairs and maintenance.</p> <p>Annual coverage of building Health and Safety compliance.</p>
<p><b>Children Services</b> Provision of services for children and families including looked after children, family support, schools and SEND.</p>	<ul style="list-style-type: none"> <li>• Failure in service continuity, safeguarding arrangements, financial management and governance;</li> <li>• Increased demands for services with reduced funding.</li> </ul>	<p>On-going in-year assurance on funding claims for Supporting People.</p> <p>Cyclical full review of specific areas such as placements, direct payments, looked after children based on discussions with management and understanding of risk.</p> <p>Each school reviewed at least once (with more frequent review where required).</p>

Area of Review	Significant Persistent Risks	Five-year Approach
<p><b>Adult Social Care</b> Services provided to adults including day care, home care, direct payments and reablement.</p>	<ul style="list-style-type: none"> <li>• Increased demands for services with reduced funding;</li> <li>• Lack of suitable provision;</li> <li>• Weak supplier financial resilience.</li> </ul>	<p>Cyclical review of specific areas such as direct payments, home care, day centres, client affairs, charges and debt management, partnership agreements based on discussions with management and understanding of risk.</p>
<p><b>Public Health</b> Services provided to support the public health of the community including the response to the Covid-19 and other pandemics.</p>	<ul style="list-style-type: none"> <li>• Access to appropriate affordable resources to support improvement to public health priorities;</li> <li>• Changing public health priorities and capacity for delivery (as exemplified by Covid-19 pandemic).</li> </ul>	<p>At least one procurement and one contract monitoring review across 2 to 3-year period. Targeted reviews in specific areas based on discussions with management and understanding of risk.</p>
<p><b>Environment, Infrastructure and Community Services</b> Management of highways infrastructure and services provided for residents, businesses and visitors. Includes Planning &amp; building control, parking, highways, public realm, environmental health, trading standards, community safety, leisure, culture and amenity services.</p>	<ul style="list-style-type: none"> <li>• Statutory and regulatory functions not discharged effectively;</li> <li>• Weak supplier resilience / lack of provision;</li> <li>• Poor value for money/ ineffective service delivery/ failure to deliver outcomes for the community;</li> <li>• Injury to health /wellbeing to the community, businesses and visitors.</li> </ul>	<p>At least one procurement and one contract monitoring review across 2 to 3-year period. Cyclical review across the service areas based on discussions with management and understanding of risk.</p>

### Strategic Risks

The risks that could impact on the sustainability and delivery of the Council's statutory and non-statutory services and operations are considered to be of strategic significance. At the time of preparing the Audit Plan the Council's Strategic Risks are identified as:

Number	Risk
1	Failure appropriately and effectively to meet the housing, emotional and psychological needs of former residents of the Tower and Walk
2	Failure to manage the impact of Public Inquiry hearings (particularly modules 3 and 4 of Phase 2), potential criminal charges and other legal action related to Grenfell on organisational effectiveness
3	Failure to create an effective new model for social housing in Lancaster West.
4	Failure to meet landlord health and safety requirements (maintenance and housing services) for social housing tenants/properties.
5	Failure to safeguard local residents from radicalisation and extremism or to respond effectively to a major terrorist attack, civil disorder or other significant event outside RBKC control.
6	Failure to protect/safeguard individuals/businesses/ visitors from significant incidents or incidents affecting large numbers of residents (e.g. pandemic health incident, infectious disease outbreaks, legionella outbreaks).
7	Failure to protect/safeguard individuals/businesses/ visitors from the effects and impact of the Coronavirus pandemic.
8	Failure to respond effectively to another major incident (fire or other event).
9	Impact of significant external economic factors, affecting service delivery.
10	Failure to establish corporate mechanisms for corporate planning, policy development, performance and control framework.
11	Failure in service continuity/safeguarding arrangements
12	Serious Information/Cyber Security Incident leading to all or multiple council systems shutdown and/or council unable to undertake business and/or significant ICO fine & reputational damage due to data breach, malware outbreak, phishing or ransomware attack
13	Failure effectively to address the medium-term budget challenge
14	Major IT failure - hardware or software
15	Major failure of key contractor/supplier/ partner organisations
16	Fragility of the local Care Market in light of Covid (pressures include staffing and financial resilience).
17	Failure to prepare for the impact associated with climate change, including air quality/pollution, water quality/availability, extreme weather (e.g. flooding, heat).

### Draft Annual Plan 2021/22

The Annual Internal Audit Plan for 2021/22 is presented in two parts: the three months of the year where we have identified a number of audits to be undertaken; and the remaining nine months where planning is more flexible.

To achieve this, we have increased our engagement with Management Teams to:

- Become more involved in risk discussions throughout the year, to better understand the risk environment and alternative sources of assurance available;
- Firm up the scope and timing of the following quarter's audit work; and
- Identify other areas for internal audit involvement not yet considered in the Annual Audit Plan.

Where possible the Plan is aligned to the Council's strategic risks and identified audits will be prioritised. However, it should be noted that the Council's strategic risks and priorities may change during the year and the Plan will be updated as appropriate. The Plan will be presented to the Executive Management Teams and the Audit and Transparency Committee at the start of the financial year and will then be presented every quarter. The delivery of the Plan helps to create a culture of accountability, ensures that risk management processes are embedded and contributes to the Council's governance framework.

In addition, areas of fraud risk are evaluated by the Corporate Anti-Fraud Service (CAFS) and this information will be used to inform and focus some of the audit work planned, as well as identifying areas where pro-active exercises and data analytics can provide additional assurance that fraud risks are effectively managed.

#### **Corporate Anti-Fraud Service (CAFS) – Quarter 1 2021/22**

The work undertaken by the Corporate Anti-Fraud Service (CAFS) complements the work of Internal Audit and provides additional assurance to the Council that fraud risks are being managed effectively.

The majority of CAFS quarter one 2021/22 activities will focus on the National Fraud Initiative (NFI).

The NFI is a biennial, mandatory, data matching exercise which all UK local authorities must participate in. The aim of the exercise is to identify any cases of fraud, error and overpayments within public bodies, e.g. local authorities, central government, the NHS.

The last exercise generated over 7,000 matches and similar numbers are again expected this year. The matches only indicate inconsistencies that require examination and there is no presumption that any errors, fraud or overpayment have occurred until the investigations have been completed. There is no requirement for all matches to be investigated, but to assist with the prioritisation of investigation, matches were categorised as high, medium or low risk.

During the last exercise, investigation work cleared 1,560 matches including all high-risk referrals. The work identified 18 instances of fraud with a notional saving of £106,294.

As equally important as finding fraud is the assurance the NFI gives in the areas covered by the exercise, where large numbers of matches are reviewed without significant problems. We also benefit from the deterrent effect the NFI creates.



**Draft Internal Audit Plan – Quarter 1 2021/22**

<b>Department</b>	<b>Review</b>	<b>Potential Coverage</b>	<b>Strategic Risk*</b>
Cross-Cutting	S113 Agreements	Process for ensuring review and agreement is taking place at the appropriate level (ASC, CHS, Resources).	n/a
Adult Social Care	Direct Payments	Assistance with improvements to address previously identified control weaknesses.	11
Adult Social Care	Debt Management	Review of processes in place to ensure that debt is minimised and managed effectively.	9, 11
Adult Social Care - PH	Covid Grant Funding	Dependent on timing of returns & reviews done in 2020/21.	6, 7
Children's Services	Case Management System	Advice on internal audit controls in replacement system. Ongoing assurance on procurement if required.	11
Children's Services	Integration of Operational & Financial Systems	Alignment of financial information and reporting. Potential to compare and contrast across WCC and RBKC.	11
Children's Services	SEN High Value Placements	To discuss further with the service.	11
Children's Services	Purchase Cards	To consider work undertaken within finance and identify where additional review could provide benefits.	11
Children's Services	Placements	Shared Services Placements Team – Assurance on processes and controls.	11
Children's Services	Payments & Direct Payments	Shared Services Payments and Direct Payments Team – Assurance on processes and controls.	11
Children's Services - Schools	Schools to be confirmed	Financial control and governance review.	11
Customer Delivery	Complaints	Review of effectiveness of process.	10
Environment & Communities	Facilities Management – Track Record System	Review effectiveness of system for recording compliance reviews and managing time bound repairs and allocation of work to contractors.	9
Housing & Social Investment	Building Safety Assurance Group	Less formal review of the set-up and work of the group. Test the arrangements to see if they are effective.	4

## Appendix 2

Department	Review	Potential Coverage	Strategic Risk*
Housing & Social Investment	New Homes Delivery Programme - Procurement	Follow on review to the PMO review in 2020/21 to consider the procurement activity associated with the programme.	3
Resources – Financial Management	RAM System	Review access and content of the system.	9
Resources – HR	IBC Reporting & Data Analysis	Review of data and adequacy of management reporting and potential improvements	10
Resources – HR	Sickness Reporting	Review of data and adequacy of management reporting and potential improvements	10
Resources – HR	Pay Increases and Honoraria	Review of compliance with policies and controls.	10
Resources – HR	LMS System	Learning Management System – compliance and reporting in respect of training. Focus on mandatory training.	10
Resources – HR	IBC Post & Employee Set-up and Monitoring	Compliance with policies and procedures and local management controls.	10
Resources – Information Systems	Projects & Programmes	To be discussed with the service .	12, 14
Resources – Information Systems	Asset Management	Deferred from 2020/21.	12, 14

\*The Council's current strategic risks are detailed at the end of Appendix 1 (Strategic Internal Audit Plan). These will be reviewed and updated during the year as appropriate.

**Draft Internal Audit Plan – Quarter 2 to 4 2021/22**

Department	Review	Potential Coverage	Strategic Risk*
Cross-Cutting	Governance & Compliance	Compliance with expected standards: <ul style="list-style-type: none"> <li>• Declarations of Interest</li> <li>• Gifts &amp; Hospitality</li> <li>• Business Continuity</li> <li>• Risk Management</li> <li>• Delegation of Decision Making</li> <li>• Budget Holder Accountability</li> </ul>	10 10 5, 8 10 9, 10 9
Adult Social Care	Covid-19 Inequalities	To discuss further with the service.	6, 7
Adult Social Care	Quality Assurance	Review existing processes in place and information from other sources of assurances.	11
Children's Services	Tri-borough Placements (LAC)	To be discussed further with the service.	11
Children's Services - Schools	Schools to be confirmed	Financial control and governance.	11
Customer Delivery	Council Tax	Cyclical review.	9
Customer Delivery	Housing Benefit	Cyclical review.	9
Customer Delivery	NNDR	Cyclical review.	9
Customer Delivery	Corporate Debt Recovery	Potential review of plans to recover debt accumulated over the pandemic	9
Customer Delivery	Events	Commission payments and debt recovery.	9
Environment & Communities	Libraries	To discuss further with the service (deferred from 2020/21)	9
Environment & Communities	Registrars	To discuss further with the service (deferred from 2020/21)	9
Environment & Communities	Facilities Management	Review of contracts – possibly split into two elements. One covering Hard FM and the other covering Soft FM.	15
Environment & Communities	Parking and Carbon Reduction	To be discussed further with the service.	17
Grenfell Partnerships	To be confirmed	Possible review of non-prepaid card services provision.	1

Department	Review	Potential Coverage	Strategic Risk*
Housing & Social Investment	Health & Safety Compliance	Two areas suggested for review: <ul style="list-style-type: none"> <li>• Asbestos Management</li> <li>• Water Hygiene</li> </ul>	4
Housing & Social Investment	Major Works	Scope to be discussed with the service.	4
Housing & Social Investment	Lancaster West Refurbishment	Scope to be discussed with the service.	3
Housing & Social Investment	Property Strategy	Scope to be discussed with the service.	10
Housing & Social Investment	Homelessness	Deferred from 2020/21.	4
Resources - HR	Pensions Administration	Change to in-house provision. New review.	9
Resources - HR	Pension Payments BACS Processes	Change to in-house provision. New review.	9
Resources – HR & Financial Management	Key HR & Financial Controls Testing	Annual programme of testing.	9
Resources – Information Systems	Other – to be confirmed	To be further discussed with the service.	12, 14
Resources – Legal Services	Lexcel Certification	Critical friend as part of preparation for certification process.	n/a