

# Internal Audit Progress Report @ 30 September 2018



## 1 Introduction

The purpose of this report is to bring the Audit and Risk Assurance Committee up to date with the progress made against the delivery of the 2018/19 Internal Audit Plan.

The information included in this progress report will feed into and inform our overall opinion in our Internal Audit Annual Report issued at the year end. Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

Limited	<ul style="list-style-type: none"><li>A risk of objectives not being achieved due to the absence of key internal controls and a significant breakdown in the application of controls.</li></ul>
Satisfactory	<ul style="list-style-type: none"><li>A sufficient framework of key controls for objectives to be achieved but the control framework could be stronger, and controls are applied but with some lapses.</li></ul>
Substantial	<ul style="list-style-type: none"><li>A robust framework of controls ensures objectives are likely to be achieved and controls are applied continuously or with only minor lapses.</li></ul>

This is based upon the number and type of recommendations we make in each report. Each recommendation is categorised in line with the following:

Fundamental	Action is imperative to ensure that the objectives for the area under review are met.
Significant	Requires action to avoid exposure to significant risks in achieving the objectives for the area under review.
Merits attention	Action advised to enhance control or improve operational efficiency.

For school reviews, the overall opinion is based on the following criteria to match the assurance categories awarded by Ofsted:

Inadequate	<ul style="list-style-type: none"><li>• Risk of objectives not being achieved due to the absence of key internal controls, with significant breakdown in the application of controls.</li></ul>
Satisfactory	<ul style="list-style-type: none"><li>• Reasonable framework of key controls exists, but could be stronger to support achievement of objectives, with occasional breakdown in the application of controls.</li></ul>
Good	<ul style="list-style-type: none"><li>• Effective framework of key controls ensures objectives are likely to be achieved and controls are applied but with some minor lapses.</li></ul>
Outstanding	<ul style="list-style-type: none"><li>• Robust framework of key controls ensures objectives should be achieved and controls are applied continuously.</li></ul>

The overall opinion for each of the school reviews is based upon the number and type of recommendations we make in each report, in line with the recommendation classifications for non-schools, i.e. fundamental, significant and merits attention.

## 2 Summary of Work Completed between 1 April and 30 September 2018

AAN	Assessment of Assurance Need Rating
*	Awaiting Response (all longstanding responses will be brought to the attention of the committee throughout the year for monitoring purposes)
N/A	Not Applicable, review outside of normal risk-based auditing approach/customer request/grant claim, etc.

Auditable Area	AAN rating	Recommendations			Total	Number accepted	Level of Assurance
		Fundamental	Significant	Merits attention			
<b>Reported for the first time:</b>							
Lightwoods House	N/A	-	7	-	7	7	Limited
Sandwell Community School	Medium	-	3	8	11	*	Satisfactory
Mayors Charity Account	N/A	-	-	-	-	-	N/A
Sandwell Valley missing tower lights	N/A	2	2	-	4	4	Limited
West Bromwich Market cash procedures and missing receipt books	N/A	-	5	-	5	5	Limited
Debt Collection, Income Management	N/A	2	4	-	6	6	Limited
Walker Grange Extra Care follow up	N/A	-	-	2	2	2	N/A
St Michaels High School	Medium	-	1	2	3	3	Good

[ILO: UNCLASSIFIED]

Audits underway as at 1 October 2018
Voluntary Sector Leases
Carbon Reduction Commitment
Public Buildings – Gas Certifications
Budgetary Control
Main Accounting System
Allocations Policy
Personal Budgets
Procurement – Public Health
Procurement – Adult Social Care
Grants follow-up

### 3 *Key issues arising for the period 1 April to 30 September 2018*

A general overview of other areas of planned audit work completed during the period is given below:

#### *Lightwoods House*

Lightwoods House and Park hosts public events including vintage fairs, fun days, Halloween, Christmas and other events throughout the year. Rooms can be booked for corporate events, meetings and individuals who run keep fit classes etc. Wedding ceremonies can take place in there and the Long Room is used as the reception venue.

Following concerns raised over the bookings system in place at Lightwoods House, we undertook a review of the current arrangements and carried out an unannounced cash-up.

A number of issues were identified where improvements could be made including the office was not utilising the invoicing/internal recharge process effectively leading to a reliance on accepting cash payments, a lack of separation of duties with regards to cash collection, banking and access to the safe alongside other security issues and the lack of adequate insurance cover.

#### *Sandwell Valley missing tower lights*

Similar to the above we also undertook an audit of Sandwell Valley Park Farm inventory records and the security of assets, after concerns were raised that three tower lights hired by the council, had gone missing following the bonfire at Dartmouth Park in November 2017. The loss was reported to the Police and a crime number obtained.

We found that there were poor procedures in place for security after such events had taken place, along with a lack of an adequate asset and inventory control and trail.

### *West Bromwich Market cash procedures and missing receipt books*

A concern was raised by officers from the Market's team that two controlled stationery receipt books had gone missing. Such receipts are issued when Market Officers receive cash from the Market Traders who pay on the day.

While no theft of cash was identified, a number of issues were highlighted whereby improvements could be made including a lack of separation of duties with regards to cash collection, banking and access to the safe alongside poor controls over controlled stationery.

### *Debt Collection, Income Management*

We reviewed the procedures in place for the payment of invoices to debt collection companies who are used to pursue longer standing tenant arrears where for example the council have been unable to locate former tenants. Also, we looked into a concern that had been raised that one of the companies used had changed their billing arrangements without consulting the council. In this particular case we found that they had changed their commission rate and begun to deduct their commission directly from settled debts, without getting the approval of the council in advance. However, this company had not been provided with any new debts to pursue for a number of years and so the overall impact wasn't as significant as it may have been.

With regards to this and other companies, we noted an overall lack of monitoring of the debt collection service being provided, and in having up to date and central contracts alongside a potential breach of UK and OJEU legislation. The total aggregate spend for a single company over a number of years was over the set limits for seeking competition and non-compliance with the council's Financial Regulations and Procurement and Contract Procedure rules as orders for such services were not always raised in advance.

This service area had recently come under new management and a fresh perspective on the council's processes for pursuing such debts, alongside the implementation of our recommendations, was taking place.

### *School Audits*

We commenced our annual school audit programme, and two such reviews have been undertaken to assess whether they had adequate governance, risk management and control processes in place to ensure that financial management and governance arrangements were satisfactory. Of the two schools, one received good assurance and one received satisfactory assurance. Issues identified included:

- non-compliance with the requirements of the Contract and Procurement Procedures when purchasing a lease. In one school only one supplier was asked to bid, but due to the value of the lease, a tender exercise should have been undertaken and the contract advertised in accordance with EU regulations. In the other school, the length of lease taken out exceeded the specified limit.
- a lack of segregation of duties between the raising of orders and the authorisation of invoices on the finance system.
- only one person was signing to approve payments, when financial regulations state there should be two people undertaking this function.

## *5 Other activities undertaken by Audit Services*

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### *CIPFA – Audit Committee Updates*

We continue to present the regular CIPFA Audit Committee Updates to the committee.

### *Audit and Risk Assurance Committee – Terms of Reference*

We submitted the Audit and Risk Assurance Committee Terms of Reference for annual review at the March 2018 meeting of the committee.

### *Internal Audit Plan 2018/19*

We submitted the Internal Audit annual plan for 2018/19 to the committee for approval at the March 2018 meeting.

### *Internal Audit Annual Report 2017/18*

We presented the Internal Audit annual report for 2017/18 to the committee for comment and approval at the July 2018 meeting.

### *Audit and Risk Assurance Committee Annual Report*

Assistance was provided in the preparation of the Annual Report on the work of the Audit and Risk Assurance Committee.

### *Internal Audit's role in investigating allegations of Fraud*

During the year, we have continued to invest a significant amount of internal audit time in working with the Counter Fraud Unit on investigating a number of allegations into potential fraud. Where appropriate these will be reported back to the committee as and when they are concluded.

### *Annual Governance Statement*

We assisted in the preparation of the Annual Governance Statement for 2017/18, which was presented to the committee at its meeting held in July 2018.

### *Governance Board*

We continue to play a role on the council's Governance Board.