

Annual Internal Audit Report - 2017/18



1 *Introduction*

1.1 Our internal audit work for the period from 1 April 2017 to 31 March 2018 was carried out in accordance with the internal audit plan. The plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the council's governance, risk management and control processes. In this way, our annual report provides one element of the evidence that underpins the Annual Governance Statement the council is required to make within its annual financial statements. This is only one aspect of the assurances available to the council as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the council may rely could include:

- The work of the External Auditors (KPMG)
- The result of any quality accreditation
- The outcome of any visits by HMRC
- Other pieces of consultancy or third-party work designed to alert the council to areas of improvement
- Other external review agencies (e.g. Ofsted, Children's Services Commissioner)

As stated above, the framework of assurance comprises a variety of sources and not only the council's internal audit service. However, internal audit holds a unique role within a local council as the only independent source of assurance on all internal controls. Internal audit is therefore central to this framework of assurance and is required to acquire an understanding not only of the council's risks and its overall whole control environment but also all sources of assurance. In this way, internal audit will be able to indicate whether key controls are adequately designed and effectively operated, regardless of the sources of that assurance. A key element is the mapping of the framework of controls assurance deriving from the council's risk management system. To facilitate this, we maintain a strategic assurance map which is presented to the Audit and Risk Assurance Committee at regular intervals. Where appropriate, it has also been used to inform our overall opinion included in this report.

Also, consideration of the Council's governance, risk management, ethics-related objectives programmes and activities, and the information technology governance is implicit in all internal audit activity.

1.2 The definition of internal audit, as described in the Public Sector Internal Audit Standards is:

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal audit activity is organisationally independent and further details behind the framework within which internal audit operates, can be found in the internal audit charter which is reviewed annually by the Audit and Risk Assurance Committee.

Overall assurance

1.3 As the providers of internal audit to the council, we are required to provide the *Section 151 Officer with an opinion on the adequacy and effectiveness of the council's governance, risk management and control processes. In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide to the Section 151 Officer is reasonable assurance that there are no major weaknesses in the council's governance, risk management and control processes. In assessing the level of assurance to be given, we have taken into account:

- All audits undertaken for the year ended 31 March 2018.
- Any follow-up action taken in respect of audits from previous periods.
- Any significant or fundamental recommendations not accepted by management.
- Any limitations which may have been placed on the scope of internal audit.
- The extent to which any resource constraints may impinge on the ability to meet the full audit needs of the council.

* Section 151 of the Local Government Act requires the council to appoint a suitably qualified officer to be responsible for the proper administration of its financial affairs.

2 *Internal audit opinion*

2.1 We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out in paragraph 1.3 above, our opinion is as follows:

2.2 Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the council by other providers as well as directly by Internal Audit, Internal Audit can provide **reasonable assurance** that the council has adequate and effective governance, risk management and internal control processes.

However, throughout the year we did note a number of key control issues, either through our work, the issues reported to the Audit and Risk Assurance Committee with regards to allegations of fraud and misconduct, the work of other assurance providers and issues identified in the Annual Governance Statement that required addressing, as listed below.

Internal audit – limited assurance reports

While not fundamental to the overall control environment, from our internal audit work we gave a 'limited' rating in the following areas and it remains important that the recommendations made in these areas are implemented in a timely manner:

- Riverside
- Riverside – Energy Performance Certifications
- Newtown Primary School
- Council – Rents
- Riverside – Rents
- Changes to Supplier Bank Accounts

Key improvement areas arising from the annual governance statement:

The council recognises that the identification, evaluation and monitoring of risks is a key aspect in the governance of the organisation. The following matters represent the most significant current governance issues that are subject to attention in order to ensure that lessons are learnt and good practice is embedded:

Children's Services
Resilience of the Medium Term Financial Strategy
Land Sales and Other Matters
Compliance with Contract Procedure Rules and Allocation of Grants
Business Continuity
General Data Protection Regulations
Cyber Security

Further details on each of these can be found in the 2017/18 Annual Governance Statement.

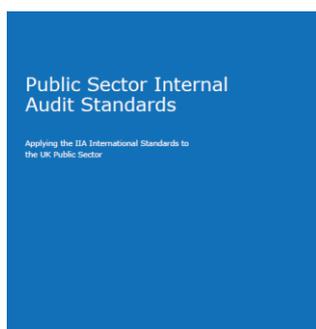
Internal audit's role in investigating allegations of fraud and misconduct

During the year, a significant amount of internal audit time continued to be spent working with the Counter Fraud team on a range of investigations. Again, it is important that where recommendations are made, that they are implemented in a timely manner.

The External Auditor's Annual Report

We understand that the External Auditors have raised a number of issues as part of their on-site audit of the accounts and, again these will need addressing.

3 *Performance of the audit service*



Compliance with the Public Sector Internal Audit Standards

The internal audit service follows the Public Sector Internal Audit Standards, and the Code of Ethics that form part of the standards, as laid out in the internal audit charter approved by the Audit and Risk Assurance Committee. The quality assurance and improvement programme identified no major non-conformances with these standards and therefore the internal audit activity has conformed with the international standards for the professional practice of internal auditing. An external assessment of this programme is planned for 2018/19.

Audit plans

Indicator	Actual
Audit Plan produced in advance of the year to which it relates (i.e. prior to 1 April 2018)	Yes – Audit Plan produced and distributed in March 2018

Recommendations

Indicator	Actual
90% of 2017/18 recommendations accepted by council management (where response received)	100 %
% of key recommendations made in 2016/17, followed up and confirmed as implemented on time by management	86 %

No. of 2016/17 key recommendations followed up	No. of key recommendations implemented	% implemented by management
7	6	86

Non-implementation of agreed recommendations

We were pleased to note that most of our agreed key recommendations had been implemented. The only area where a recommendation had yet to be implement related to our financial systems review of the Security of Controls, Financial Systems review.

Relationships

Indicator	Actual
Feedback obtained from report recipients (target 4 out of 5)	4.6 (see table below for a detailed breakdown)
Satisfaction of Audit and Risk Assurance Committee members is good	No key issues have been flagged during the year

Customer satisfaction questionnaires accompany all audits. From the responses returned, the average scores were as follows:

Question	Average Score 2016/17	Average Score 2017/18
Usefulness of audit	4.4	4.7
Value of recommendations	4.4	4.6
Usefulness of initial discussions	4.6	4.4
Fulfilment of scope & objectives	4.5	4.7
Clarity of report	4.6	4.7
Accuracy of findings	4.8	4.6
Presentation of Report	4.8	4.7
Time span of audit	4.4	4.7

Timeliness of audit report	4.4	4.4
Consultation on findings/recommendations	4.5	4.6
Helpfulness of auditors	4.5	4.9
Overall Satisfaction with Audit Services	4.5	4.6

Scores range between 1 = Poor and 5 = very good. We have a target of achieving on average a score of **4 = good**

Reviews by other agencies

Indicator	Actual
Consideration of internal audit work by external audit	No issues raised
Outcome of external reviews by other agencies	No such reviews for 2017/18

Staffing

Indicator	Actual
% of Audit Services' employees professionally qualified (target 34%)	40 %

4 *Summary of work completed*

Where appropriate, a detailed written report and action plan is prepared and issued for every internal audit review. The responsible officer will be asked to respond to the report by completing and returning the action plan. This response must show what actions have been taken or are planned in relation to each recommendation. If the recommendation is not accepted, this must also be stated. We are responsible for assessing whether the response is adequate.

Audit reviews completed in 2017/18

The following tables below list all the reports issued by internal audit during 2017/18, alongside their original Assessment of Assurance Need (AAN) risk score, the number and type of recommendations made, whether those recommendations have been accepted and an overall level of assurance for each review. Where appropriate each report we issue during the year is given an overall assurance opinion based on the following criteria:

Substantial	Satisfactory	Limited
A robust framework of controls ensures objectives are likely to be achieved and controls are applied continuously or with only minor lapses.	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.	A risk of objectives not being achieved due to the absence of key internal controls and a significant breakdown in the application of controls.

For school reviews, we use a different opinion statement, in order to match the assurance categories awarded by Ofsted, which is based as follows:

Outstanding	Good	Satisfactory	Inadequate
Robust framework of key controls ensures objectives should be achieved and controls are applied continuously.	Effective framework of key controls ensures objectives are likely to be achieved and controls are applied but with some minor lapses.	Reasonable framework of key controls exists, but could be stronger to support achievement of objectives, with occasional breakdown in the application of controls.	Risk of objectives not being achieved due to the absence of key internal controls, with significant breakdown in the application of controls.

Summary of internal audit work completed for the year 2017/18

AAN	Assessment of assurance need rating
*	Awaiting response (all longstanding responses will be brought to the attention of the Audit and Risk Assurance Committee)
NA	Not applicable, review outside of normal risk based auditing approach/customer request etc.

Auditable area	AAN rating	Recommendations					Level of assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Meadows Sports College	Medium	-	1	10	11	11	Satisfactory
St Mary Magdalene Primary School	Medium	-	1	6	7	7	Good
Lodge Primary School	Medium	-	-	5	5	5	Good
Moat Farm Infant School	Medium	-	1	6	7	7	Good
Wednesbury Local Centre	High	-	-	1	1	1	Substantial
Boscobel Tenant Management Organisation	Medium	-	1	-	1	1	Substantial
Riverside	Medium	1	5	1	7	7	Limited
House Building Development Programme	Medium	-	-	-	-	-	Substantial
Carbon Reduction Commitment	High	-	-	-	-	-	Substantial
Pot Hole Action Fund Certification	High	-	-	-	-	-	N/A
Rood End Primary School	Medium	-	3	9	12	12	Satisfactory
Lyng Primary School	Medium	-	-	4	4	4	Good
Ocker Hill Infant School	Medium	-	-	6	6	6	Good
Rowley Hall Primary School	Medium	-	1	3	4	4	Good
Mayors Accounts	Medium	-	-	-	-	-	Substantial
Hateley Heath Primary School Follow Up	N/A	-	-	-	-	-	N/A

Auditable area	AAN rating	Recommendations					Level of assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Christchurch Primary School Follow Up	N/A	-	-	-	-	-	N/A
Newtown Primary School	Medium	-	13	15	28	28	Inadequate
Tameside Primary School	Medium	-	4	2	6	*	Satisfactory
Temple Meadow Primary School	Medium	-	2	2	4	4	Good
Further Education Funding Grant Certification	High	-	-	-	-	-	Substantial
Budgetary Control	High	-	2	-	2	2	Satisfactory
Main Accounting System	High	-	1	1	2	2	Substantial
Accounts Payable	High	-	1	1	2	2	Substantial
Accounts Receivable	High	-	1	-	1	2	Substantial
Sacred Heart Primary School	Medium	-	3	7	10	10	Satisfactory
Council Tax	High	-	-	1	1	1	Substantial
Benefits	High	-	-	-	-	-	Substantial
National Non-Domestic Rates	High	-	1	-	1	*	Substantial
Riverside – Gas Certifications	Medium	-	-	1	1	1	Substantial
Riverside – Energy Performance Certifications	Medium	1	-	-	1	1	Limited
Reported for the first time							
Newtown Primary School Follow Up	N/A	-	-	-	-	-	N/A
Security Controls, Financial Systems	High	-	1	-	1	1	Substantial
Capital Accounting	High	-	2	-	2	2	Satisfactory
Treasury Management	High	-	-	1	1	1	Substantial
Local Government Pension Scheme	High	-	-	-	-	-	N/A

Auditable area	AAN rating	Recommendations					Level of assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Council, Rents	High	2	4	2	8	8	Limited
Riverside, Rents	High	1	6	0	7	7	Limited
Changes to Supplier Bank Details	N/A	2	-	-	2	2	Limited

5 Key issues arising during the year

Key issues that arose during Q1, Q2 and Q3 have already been flagged to the Audit and Risk Assurance Committee in our in-year progress reports.

In our quarter 1 progress report we provided further details on:

- Schools (8)
- Wednesbury Local Centre
- Boscobel Tenant Management Organisation
- Riverside
- House Building Development Programme
- Carbon Reduction Commitment
- Pothole Action Fund Certification
- Mayors Account

In our quarter 2 progress report we provided further details on:

- Schools (5)
- Further Education Funding Grant Certification
- Budgetary Control
- Main Accounting System
- Accounts Payable

In our quarter 3 progress report we provided further details on:

- Schools (1)
- Accounts Receivable
- Council Tax
- Benefits
- National Non-Domestic Rates
- Riverside – Gas Certifications
- Riverside – Energy Performance Certifications

A general overview of the remaining planned audit work completed during the last quarter of the year is given below:

Newtown Primary School Follow Up

Following our earlier review of the school whereby we gave a level of inadequate assurance, we subsequently revisited the school in order to assess the progress made in implementing the actions detailed in our report. We found that significant progress had been made in addressing the issues highlighted.

Capital Accounting

Independent revaluation of fixed assets is either carried out by the council surveyor and/or external surveyors. On examination of ten assets requiring valuation we noted that one asset held on the General Fund Investment register had been sold in 2016, but had not been removed from the asset register due to not receiving the completion certificate until the new year. Also, a number of valuations appeared to have been entered incorrectly into the Atrium system which had arisen as part of a training issue and one that Management were addressing.

Council Rents

This review included the reconciliation of the rent roll (which identifies the council's housing stock/property records), reconciliation of the rents system to the cash receipting system, changes to housing stock, the annual calculation of the rent debit and the receipt of rental income. We noted that there was a single dependency upon an officer to complete the rent increase calculation and a number of weaknesses were found where improvements needed to be made, including:

- Cabinet approved that all new build properties should be charged 80% of the market rent, in line with Government guidelines. However, the rent calculated for the sample of new builds tested was found to be around 70%.
- There were instances of tenants in comparable new build properties being charged different rents.
- Council rent letters had not been sent out within the 28 days legislative requirement prior to the rent change.
- A reconciliation of the housing stock held in the Housing Management system (SHAPE) system, was not undertaken on a regular basis.
- At the time of our review a reconciliation of the rents system to the income system (PARIS) had not taken place for four months (since October 2017). This impacted on the reconciliation of the rents system to the general ledger, which also had not been completed.
- A formal comprehensive procedure for 'buy backs' (when the council buy back a property after it has been purchased through right to buy) was not in place.

Riverside Rents

Riverside look after a proportion of the councils housing stock under a PFI agreement that has been in place since 2006. The housing rents section at Riverside is responsible for collecting rent, the recovery of rent arrears, former tenants' arrears and the recovery of rechargeable works. During our review, we identified a number of issues where improvements could be made, arising from the following:

- The rent debit reconciliation which provides a reconciliation of all the changes raised/rent debit each month had not been completed for two months.
- IT issues with the new system had hindered some of the everyday processes.
- In less than 12 months the number of tenants in arrears had increased by 47%.
- No recovery action was being undertaken on former tenant arrears.
- While the annual rent letters had been sent to tenants, the Open House system used by Riverside had not been updated with this data in a timely manner so if queries had arisen from tenants, officers may not have had access to the most up to date information in order to answer them.
- Court costs and Rechargeable repair costs were not fully monitored or chased for payment.
- The councils cash procedures were not fully followed as there were three instances where the float was issued by the supervisor, but not signed as received by the cashier and other instances where it was not signed back in.

Changes to Supplier Bank Details

We were asked by the Head of Finance to undertake a review on changes made to bank details and to determine whether a methodical process was followed, correct forms completed and the process appropriately controlled. This was following on from an instance whereby the council had been the victim of a mandate fraud of £16,000 as reported previously to the Audit and Risk Assurance Committee.

We carried out a review of a sample of 100 changes made during a 12 month period in order to ensure compliance. However, we found a number of weaknesses including:

- Input errors had gone undetected, which indicated very little management review, together with the lack of a reconciliation taking place between the number of forms received to the number of changes made.
- An appropriate amendment form in approximately 50% of the cases was not held on the system and it was also found that when bank account details were over typed and not 'end dated' older payments made before the changes would only show the new details rather than the original details and the payment history would be lost.
- Payments sent for processing and then rejected by BACS were not re-processed with the correct codes in a timely manner.
- The lack of checks undertaken on amendment forms received from other council areas who use Autopay (payment system) to ensure on the validity of the change requested.

Other areas across the council where internal audit also plays a key role

Council governance

Team members sit on the council's Governance Board. The remit of the board is to review governance arrangements and to monitor agreed arrangements to provide assurance to stakeholders that good governance exists as part of the approach across all areas of the council. We also had an integral role in reviewing the council's Code of Corporate Governance and updating it in line with the seven core principles detailed in the CIPFA/SOLACE framework "Delivering Good Governance in Local Government".

Annual Governance Statement

We lead on the preparation of the Annual Governance Statement which accompanies the council's Statement of Accounts and is produced to comply with the requirements of the Accounts and Audit Regulations. As part of this exercise, each director is required to complete and return a director's assurance statement to us. In addition, for 2017/18, each Cabinet Member has also completed an assurance statement.

CIPFA – audit committee updates

We continue to present the regular CIPFA Audit Committee Updates to the Audit and Risk Assurance Committee.

Internal audit charter

We undertake and present to the Audit and Risk Assurance Committee an annual review of the Internal Audit Charter. The latest version was presented and approved at the October 2017 meeting of the Committee.

Audit and Risk Assurance Committee – terms of reference

We complete an annual review of the Audit and Risk Assurance Committee Terms of Reference. The latest version was presented and approved at the March 2018 meeting of the Committee.

Internal audit plan 2018/19

We submitted the Internal Audit annual plan for 2017/18 to the Committee for approval at the March 2018 meeting.

Audit and Risk Assurance Committee Annual Report

Assistance was provided in the preparation of the Annual Report of the Chair, on the work of the Committee.

Bursars Group

We regularly attend and present at the school's bursar group. The purpose of the group is to discuss and strengthen issues relating to the administrative, governance and financial functions within schools.

West Midlands Contract Group

We host a bi-annual group meeting attended by other West Midlands councils, with the purpose of discussing new issues within procurement and contract monitoring and the sharing of best practice.

Counter Fraud

The council's Counter Fraud Unit sits within internal audit and is responsible for, amongst others, investigating assigned cases of potential fraud, running a series of raising fraud awareness activities and talking in part in all national anti-fraud initiatives and benchmarking activities. Full reports on the work of the Counter Fraud Unit and the relevant investigatory work undertaken by Internal Audit are presented separately to the Audit and Risk Assurance Committee.

Wider client base

Through a shared service arrangement, internal audit also play a key role in the delivery of internal audit services to:

- Sandwell Leisure Trust
- Sandwell Children's Trust
- West Midlands Fire Service
- The City of Wolverhampton Council
- West Midlands Pensions Fund
- West Midlands Combined Authority
- Wolverhampton Homes