

# Annual Internal Audit Report - 2018/19



## 1 *Introduction*

1.1 Our internal audit work for the period from 1 April 2018 to 31 March 2019 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 (Grant Thornton)
- 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 2019.
- 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.
- The council's Strategic Risk Register and Assurance Map is regularly presented to directors and the Audit and Risk Assurance Committee

\* 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.

In reaching our opinion, the following factors were taken into particular consideration:

- We have had unfettered access to all records and employees during 2018/19.
- The need for management to plan appropriate and timely action to implement our and other assurance providers' recommendations.
- Key areas of significance, identified as a result of our audit work performed in year are detailed later in this report.
- While stand-alone reviews of governance and risk management are not undertaken, consideration of both these issues are implicit in all internal audit work. Similarly, assurance is gained from the regular review of the council's Strategic Risk Register as presented at meetings of the Audit and Risk Assurance Committee.

However, throughout the year we did note a number of key control issues, either through our work, 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:

- Lightwoods House
- Sandwell Valley missing tower lights
- West Bromwich Market cash procedures and missing receipt books

- Debt Collection, Income Management
- Personal Budgets
- Accounts Payable
- Public Buildings – Gas Safety
- Leased Car Scheme
- Information Governance
- Leased Car Scheme - Mileage
- Planned Maintenance, Riverside
- Rents (Council)
- Grounds Maintenance – Asset and Inventory Records

*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

Compliance with Contract Procedure Rules and Allocation of Grants

Data Protection Act 2018 (incorporating the General Data Protection Regulation)

Cyber Security

School Place Planning

Further details on each of these can be found in the 2018/19 Governance Statement.

*Internal audit’s role in investigating allegations of fraud and misconduct*

During the year, a large sum of internal audit time was 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*

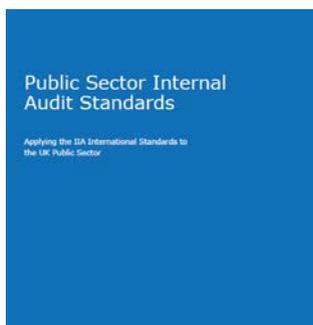
At the time this report was prepared, we were not aware of any key issues of significance being raised by the External Auditors.

*Key risks the council faces*

The key risks the council faces in delivering its outcomes are captured in a Strategic Risk Register which is updated as and when the risk profile of the Council changes, and is reported

to the Audit and Risk Assurance Committee on a regular basis.

### 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 self-assessment 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 independent validation of the self-assessment process is planned for 2019/20.

#### Audit plans

Indicator	Actual
Audit Plan produced in advance of the year to which it relates (i.e. prior to 1 April 2019)	Yes – Audit Plan produced and distributed in March 2019

#### Recommendations

Indicator	Actual
90% of 2018/19 recommendations accepted by council management (where response received)	100%

#### 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

#### 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 2018/19

#### Staffing

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

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

Question	Average Score 2017/18	Average Score 2018/19
Usefulness of audit	4.7	4.6
Value of recommendations	4.6	4.6
Usefulness of initial discussions	4.4	4.5
Fulfilment of scope & objectives	4.7	4.6
Clarity of report	4.7	4.7
Accuracy of findings	4.6	4.7
Presentation of Report	4.7	4.8
Time span of audit	4.7	4.6
Timeliness of audit report	4.4	4.5
Consultation on findings/recommendations	4.6	4.6
Helpfulness of auditors	4.9	4.8
<b>Overall Satisfaction with Audit Services</b>	<b>4.6</b>	<b>4.6</b>

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

#### 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 2018/19*

The following tables below list all the reports issued by internal audit during 2018/19, 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 2018/19*

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	
<b>Reported at previous meetings of the Committee during the year:</b>							
Lightwoods House	N/A	-	7	-	7	7	Limited
Sandwell Community School	Medium	-	3	8	11	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
Personal Budgets	High	2	8	1	11	11	Limited
Procurement – Public Health	High	-	-	-	-	-	Substantial
Perryfields High School	Medium	-	2	9	11	11	Good
Further Education Funding Grant Certification	N/A	-	-	-	-	-	N/A
Review of the School Fair Funding Scheme	N/A	-	-	-	-	-	N/A
Accounts Payable	High	-	5	-	5	5	Limited
Public Buildings – Gas Safety	Medium	4	-	-	-	4	Limited

Auditable area	AAN rating	Recommendations					Level of assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Rowley Regis Local Office 'Cash up'	Medium	-	1	1	2	2	Substantial
West Bromwich Library - Cash and Banking	Medium	-	3	-	3	3	Satisfactory
Carbon Reduction Commitment	N/A	-	-	-	-	-	N/A
Budgetary Control	High	-	2	-	2	2	Satisfactory
Leased Car Scheme	Medium	1	2	-	3	3	Limited
<b>Reported at this Committee meeting for the first time:</b>							
Information Governance	N/A	1	-	-	1	1	Limited
Harvills Hawthorn – Teaching School Grant	N/A	-	-	-	-	-	N/A
Oakham Primary – School Direct Grant	N/A	-	-	-	-	-	N/A
Leased Car Scheme - Mileage	Medium	4	-	-	-	4	Limited
Payroll	High	-	2	3	5	5	Satisfactory
Main Accounting System	High	-	2	2	4	4	Satisfactory
TMO Cotterills Farm Rents	Medium	-	3	-	3	3	Satisfactory
Accounts Receivable	High	-	2	-	2	2	Satisfactory
Planned Maintenance, Riverside	Medium	1	1	-	2	2	Limited
Rents (Council)	High	2	3	3	8	8	Limited
Grounds Maintenance Asset/Inventory Records	NA	2	2	-	4	4	Limited
NNDR	High	-	-	-	-	-	Substantial
Benefits	High	-	-	-	-	-	Substantial
Treasury Management	High	-	1	-	1	1	Substantial
Council Tax	High	-	-	-	-	-	Substantial

Auditable area	AAN rating	Recommendations					Level of assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Capital Accounting	High	-	3	-	3	*	Satisfactory
Review of New Financial System – Schools	N/A	-	-	-	-	-	N/A

## 5 *Key issues arising during the year*

A general overview of the audit work completed during the year is given below.

Key issues that arose during Q1, Q2 and Q3 have already been flagged to the Audit and Risk Assurance Committee in the previous three in-year progress reports. However, to provide a level of background to the new Committee Members they have been repeated in this report.

**The following issues have already been reported at previous meetings of the Committee during the year:**

### *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 continued our annual school audit programme, and three such reviews were 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 three schools, two 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.

### *Personal Budgets*

The review was undertaken to provide assurance that personal budgets were being effectively administered. Personal budgets are part of a way of providing adult social care services and is the amount of social care money funded from the council to pay for a client's support, paid in the form of direct payments. We identified a number of issues including:

- The Resource Allocation System (RAS) is used to produce an indicative budget that the individual's care package should be based on. It was identified that in a number of cases reviewed, the indicative budget had to be significantly increased as the RAS was producing unreliable indicative budgets which did not always give a true reflection of the budget required.
- Financial reviews of an individual's account were not always being completed at least annually, using a 'light touch' approach in accordance with CIPFA guidance, which had led to a backlog. Information on the backlog of the financial reviews was not readily available. As such, management were not formally aware of the amount of financial reviews outstanding at any point in time and were not therefore, in a position to challenge it.
- There was no clear follow up/escalation process for cases referred to key workers/social workers following the conduct of a financial review that had identified potential financial mis-management by clients. One case examined during this review had been referred to a key worker/social worker on two separate occasions with no adequate resolution on either occasion. As a result, this case had been the subject of debt recovery action and the client was on a debt repayment plan for a combined debt of £5,350. However, at the time of review this client was still managing their own personal budget.
- The extended periods between the completion of the financial reviews had contributed to such mis-management of accounts not being identified on a timely basis. As such, there is the possibility of an increase in the financial impact, but more importantly, is the issue

that clients may not be receiving the necessary services or support identified in their support plan, which could impact upon their wellbeing.

- Formal feedback from the financial reviews was not routinely provided to clients at the end of the process. As such, they may not be formally aware of any recommendations for improvement over the operation of their direct payment account and the backlog of financial reviews could mean that large unidentified balances may be sitting in client's bank accounts.
- Testing identified support plans were not routinely signed by the client/representative or the council representative. The council cannot demonstrate that they have in place a formal binding agreement, evidencing that both parties agree with their formal responsibilities as recorded in the relevant support plan.
- Documentary evidence was not retained as to why an individual is appointed to manage a direct payment on behalf of a client. As such, the council cannot demonstrate the process followed to evidence the appointment.

### *Procurement – Public Health*

The review was undertaken to provide assurance that processes are in place that ensure non-contract spend was adequately controlled. No issues of significance were identified.

### *Further Education Funding Grant Certification*

A review was undertaken of the local authorities' grant return and use of funds statement for 2017 to 2018. The purpose was to reconcile the payments made to the authority by the Educating Funding Agency (EFA). The review concluded that the grant claim could be signed off by the Chief Financial Officer in accordance with the guidance issued by the EFA.

### *Review of the School Fair Funding Scheme*

Local authorities are required to publish schemes for financing schools setting out the financial relationship between them and the schools they maintain, and which makes clear the requirements relating to financial management and associated issues, binding on both the authority and on schools. It also encompasses the Contract and Procurement Procedures and the Financial Regulations and Procedures. A review of the Fair Funding Scheme was undertaken, and a series of points raised to refine processes, address gaps in information and to improve the clarity of the requirements contained within.

### *Accounts Payable*

A review was undertaken to confirm that appropriate controls were in operation over the council's payment systems to ensure that payments are made accurately and timely and the potential for fraud is mitigated to an acceptable level. We identified five significant issues where improvements could be made, arising from the following:

- The duplicate payments report held no evidence of review. This included payments made through Autopay, which is a standalone payment system and means that any overpayments can remain undetected or unresolved.
- At the time of review further work had yet to be undertaken on reviewing and resolving the number of outstanding credit notes following last year's audit.
- The process for monitoring segregation of duties within Procurement is complex and two members of staff were found to have extra access to areas of the payment system. The access rights were reviewed alongside the Procurement Service Manager.
- There was no mechanism in place to log the number and reasons for returned remittances where payments have been made against incorrect addresses.

- Excessive use of non-compliance purchase order invoice forms (NCI). These are orders which are being placed without a purchase order being raised and approved. Without a valid purchase order, there is no commitment made to the budget.

### *Public Buildings – Gas Safety*

An audit of Gas Safety within council owned public buildings was undertaken. Every landlord is required by law, under the Gas Safety (Installation and Use) Regulations of 1998 and has a duty of care to make sure that all gas or liquid petroleum gas (LPG) appliances, fittings and associated flues installed in their properties are safe by undertaking annual checks and providing tenants with gas certificates to confirm this. A breach of the Regulations can have the following implications:

- It is a criminal offence - the Health and Safety Executive is empowered to bring criminal proceedings against a landlord for non-compliances, and in the most serious cases charges of corporate manslaughter could be brought.
- The Health and Safety Executive can also impose fines and penalties for non-compliance.
- The council can be held liable for having defective premises, which can lead to large losses through civil claims being made, which in some cases could be invalidated by insurers, thereby transferring the entire risk to the council.
- The council may be unable to serve a section 21 notice which is the process to commence an end to the tenancy.

The council joined a framework contract with Solihull MBC for the provision of gas safety checks. However, the council has encountered a number of ICT issues which has resulted in having to return to the contractor for manual confirmation that annual checks have been undertaken. We identified that there were a number of appliances in council owned buildings across the borough without a valid gas certificate, which breaches gas safety legislation. An accurate number could not be identified as reliance could not be placed on the accuracy of the information held in the database, since it had not been kept up to date.

An immediate action has been put in place to ensure that records are brought up to date and any outstanding checks are undertaken as a priority.

### *West Bromwich Library - Cash and Banking Procedures*

We undertook a review of the banking procedures and booking system at West Bromwich Central Library. Income is generated from services like photocopying, computer games hire, and from overdue, lost and damaged items. The library also has a café that is run by a charity Action for Children. There are also areas of the library that can be booked to be used for example the upstairs library community room etc. A number of administrative issues were identified where improvements could be made, including the need for a contract/service level agreement to be put in place as to how the café at the library should be run and documenting how costs/income from this will be apportioned. A clear set of procedures for booking rooms was not in place for staff to follow and there was a lack of separation of duties with regards to cash and access to the safe.

### *Budgetary Control*

The General Fund Revenue Budget for the council is held on the General Ledger module (GL) of the Oracle Financial system. Central control of the budget is managed by the council's Strategic Finance team and Budgetary Control is a key financial system. Two key issues were found, this included requiring Service Managers responsible for significantly changed budgets to sign a new budget accountability letter. It was also difficult to identify virement transfers from

journal entries and it was recommended that Finance employees needed to ensure that in the description 'virement' was added to the header.

### *Leased Car Scheme*

Following concerns raised by employees and the Head of Human Resources whereby a national error in the oracle system resulted in employees having their car lease agreement 'end dated' on their P11D submission to HMRC, an audit of the Leased Car Scheme was undertaken.

A P11D is a form used to report benefits in kind. These are the items or services which an employee will receive from the employer in addition to their salary.

There are 164 employees (January 2019) who use the Leased Car Scheme. The error in the system resulted in employees having their tax code changed in August 2018, because HMRC considered that they were no longer part of the scheme. This resulted in some employees having a refund at this point in time (August) from the change made. When the error was finally corrected in November 2018 additional payments of between £30 to £200 per month were needed from these employees for the remaining five months.

**The following issues are reported at this Committee meeting for the first time:**

### *Information Governance*

The Data Security and Protection Toolkit is an online self-assessment tool that all organisations must use if they have access to NHS patient data and systems. The toolkit is an online self-assessment tool that enables organisations to measure and publish their performance against the National Data Guardian's ten data security standards. All organisations that have access to NHS patient data and systems must use this toolkit to provide assurance that they are practicing good data security and that personal information is handled correctly.

One element of the toolkit is to provide assurance that confidential waste is being disposed of appropriately. We checked this element of the toolkit against the council's processes and noted that while there is a central contract in place with a supplier for the disposal of sensitive information, two other companies were also being used with whom there was no contract. Therefore, in these cases there is no formal agreed contract requirement to dispose of confidential waste appropriately. This issue was fed back to the council's Information Management Unit at the time of our review.

### *Harvills Hawthorn – Teaching School Grant*

The school was in receipt of a grant from the Department for Education in support of its operation of a teaching school. We undertook testing to validate the expenditure incurred to supporting invoices/relevant financial data, to ensure that it had been incurred in accordance with the terms and conditions of the relevant grant funding and to confirm the numerical accuracy of the return.

### *Oakham Primary – School Direct Grant*

Similar to the above, this school was in receipt of a grant from the Department for Education for the purpose of training teachers. We undertook testing to validate that the funding had been used for its intended purpose in accordance with the terms and conditions of the grant funding and had been used to train the designated trainee at the nominated school during the specified time period.

### *Review of New Financial System – Schools*

It was identified that three primary schools had from April 2018 began to use an alternative financial system supplied by an external company. This was in contravention of school financial

regulations that require schools to seek the approval of the Section 151 officer prior to such a transition. Therefore, at the request of the Deputy Section 151 Officer a review of the "Access" financial system was undertaken with a view to providing the necessary assurances that the system provided the appropriate controls in accordance with Financial Regulations. The review identified that the new system provided the necessary controls and as such, approval was given to the schools for its continued use.

### *Leased Car Scheme, mileage*

Following on from our earlier review of leased car arrangements, we noted that mileage allowances being paid to employees on the scheme had not been appropriately reported to HMRC through the P11D, as such the council would need to report a late/non-payment, and this could mean a potential penalty being incurred by the council.

We recommended that employees needed to be made fully aware of the potential of any tax implications for them with regards to the mileage not claimed through the P11D, and that the process/procedures needed updating to provide greater clarification of the implications to staff. Also, we noted that the council pay employees a different rate per mile than the HMRC advisory fuel rate for leased cars.

### *Payroll*

An audit of the council's Payroll process was undertaken. We noted that as at the beginning of December 2018, payroll reconciliations had only been completed up to September 2018, also that a previous issue regarding the updating of procedure notes had not progressed. We understand that these reconciliations are now up to date.

### *Main Accounting System*

The Main Accounting System (MAS) for the council resides on the General Ledger module (GL) of the Oracle Financial system. It records and consolidates all the financial transactions carried out. Our audit involved a review of the key controls over MAS including reconciliations and suspense accounts. While our audit provided satisfactory assurance, in our previous review it was recommended that controls should be strengthened over unpresented cheques, however due to staffing changes this had yet to take place. In addition, bank reconciliations had not been completed in a timely manner as the December 2018 reconciliation had not been completed until February 2019. We understand that these reconciliations are now up to date.

### *Tenant Management Organisation (TMO) Cotterills Farm Rents*

A TMO is a means by which council tenants and leaseholders can collectively take on responsibility for managing the homes they live in. TMO's are an independent legal body and usually elect a tenant led management committee to run the organisation. TMO's can take different forms and sizes and the services managed by the TMO vary with local circumstances, but may include day-to-day repairs, allocations and lettings, tenancy management, cleaning and caretaking, and rent collection.

Cotterills Farm TMO was formed in 1997 and became fully operational in 1998. The TMO provides housing related services to council tenants living on the estate and are currently responsible for 261 properties. The services provided include repairs to occupied and empty homes, lettings, rent management, estate management, cleaning of gullies and garage sites, tenancy management, general services and enquiries.

The TMO is currently managed by a committee of volunteers who are full tenant members and one Co-opted Member. Day to day management of the properties is undertaken by two full-time and one part-time member of staff.

We identified three issues where improvements could be made. This related to court costs not been added onto the system for debts that are chased, one tenancy agreement did not have the rent figure included on it and although current arrears are monitored on a weekly basis the formal process of sending out letters was not always acted upon in a timely manner.

### *Accounts Receivable*

The Accounts Receivable module is used to raise invoices to customers. The charges incurred by these customers include those for residential care, trade waste, rents for market pitches, business properties and bereavement services. The General Debt Recovery Team is responsible for the recovery of unpaid debts.

Issues were raised with regards to the frequency of the completed reconciliations, November and December 2018 reconciliations were not completed until February 2019. Further the issues raised last year with regards to the collection of debts from schools remained outstanding.

### *Planned Maintenance, Riverside*

Riverside has a contract with the council to manage housing stock on its behalf. The purpose of the review was to provide assurance that Riverside had processes in place to undertake planned maintenance tasks and that its contractor performance was reviewed to ensure the work was of a satisfactory standard. The following issues were identified:

- Work was signed off by Riverside as complete, but our visits identified that it may not always be of an appropriate standard.
- A contractor is used to undertake the planned maintenance work, but the contractor also sub-contracts this work. The contractor is required to ensure sub-contractors complete the necessary risk assessments, method statements, qualifications and work permit checks prior to the commencement of jobs. One sub-contractor had photocopied a previous method statement and deleted and changed the address and date. As the method statement is widely used as a means of controlling specific health and safety risks such as working at heights, helps manage the work and ensures that necessary precautions have been communicated to those involved, this action undermines the credibility of whether the appropriate checks had been undertaken.

### *Rents (Council)*

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 issues remained from last year's audit 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, although the amount charged had been raised from the previous year of 70% to 75% this still was not fully maximising the council's income.
- There continued to be instances of tenants in comparable new build properties being charged different rents.
- The reconciliation of the housing stock held in the Housing Management system (SHAPE) system, had not been undertaken on a regular basis.
- At the time of our review (April 2019) a reconciliation of the rents system to the cash receipting system (ICON) had not taken place since December 2018. This impacted on the reconciliation of the rents system to the general ledger, which also had not been completed.

### *Grounds Maintenance Asset and Inventory Records*

Earlier in the year we undertook an audit of Grounds Maintenance inventory records following concerns raised that a small ride on tractor unit had gone missing.

The service provides highways, landscape, grounds, and aboricultural maintenance that supports and enhances the environment and the continued regeneration of the borough. They provide direct services to Housing, Parks and Countryside, Schools, Sandwell leisure Trust and the councils own Property Services. There are in excess of 400 inventory items held by Grounds Maintenance. This includes items such as hedge trimmers, chain saws, strimmers, leaf blowers and a variety of lawn mowers etc.

We noted a poor level of asset and inventory control across the service area, and unfortunately it appears unlikely that the missing tractor unit will be located. The unit was purchased in February 2016 at a cost of £10,000 and a number of visits and checks have been made across the borough (including parks, buildings and satellite depots) in order to try and locate it. Its potential loss was reported to the Police and a crime number obtained. However, due to the poor audit trail within the council, we understand that the Police have since closed the case although efforts continue to me made to try and locate it.

A range of recommendations addressing the need to improve asset and inventory records, review security arrangements and ensure the regular servicing of such items have been made, agreed and are now in place.

### *NNDR*

A review of Non-Domestic Rates (NNDR) was undertaken to ensure that systems were in place to effectively maintain the council's records for business rates and to manage the billing and collection process. No issues of significance were identified.

### *Treasury Management*

A review of Treasury Management was undertaken to provide assurance that activities were carried out in accordance with council policy, maintaining an appropriate balance between liquidity, security and value for money (VFM). No issues of significance were identified.

### *Council Tax*

A review of Council Tax was undertaken to ensure that records for council tax were being maintained and the billing and collection processes effectively applied. No issues of significance were identified.

**The following issues are also brought to the attention of the Committee:**

### *Voluntary and Community Sector Grants and Leases*

During the year audit reviews have commenced on both Voluntary and Community Sector Grants and Leases. In particular a number of issues have been highlighted with regards to Voluntary and Community Sector Leases, and a procurement exercise is currently underway through the Crown Commercial Services Framework to bring in support in order to widen the remit across the whole of the council's asset base including commercial leases. Once completed the outcome of both reviews will be reported back to the Audit and Risk Assurance Committee.

### *Land Sales*

During the year, officers from both the Audit Services and Counter Fraud teams sat on the Land and Asset Management Officer Group. This group considers reports on all potential land and asset disposals in line with the requirements of the Disposal of Council-Owned Land and Buildings Protocol, before they are taken to the Land and Asset Management Committee. We were also asked to review a small number of recent disposals, again where appropriate taking into account the requirements of the Protocol.

The Protocol was first introduced in 2016 and we have recommended that this be subject to review in the current year, and we have also made a number of observations on areas where it, and the operation of the Officer Group, could be further strengthened.

### *Lease of Land off Sandy Lane/Network Rail Limited Concrete Sleeper Factory*

A concern was raised that the lease of land off Sandy Lane granted to Network Rail under delegated authority was an unlawful action. A full report on the background, history and current position statement regarding this arrangement was presented to the Cabinet on 26 June 2019. We reviewed this report alongside the other records available, and noted that paragraph 3.8 (amongst others) of the report sets out in full the context in which the delegated powers were used:

*“The Lease contains a break clause exercisable by both parties, a market value rent review clause and an option for NRL to acquire the 0.2 hectares (the leased land) at market value (or an option to acquire it for £120,000 index linked if the option is triggered within 12 months of NRL obtaining planning permission). The lease was signed on 2 September 2016 under delegated powers afforded to the then Director of Regeneration and Economy.”*

Extract from paragraph 3.8 of the Lease of Land off Sandy Lane, Wednesbury – to Cabinet 26 June 2019

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

#### *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 and each Cabinet Member also completes 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 November 2018 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 2019 meeting of the Committee.

### *Internal Audit Plan 2019/20*

We submitted the Internal Audit annual plan for 2019/20 to the Committee for approval at the March 2019 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