

# Annual Internal Audit Report - 2016/17



 Sandwell  
Metropolitan Borough Council

## 1 *Introduction*

1.1 Our internal audit work for the period from 1 April 2016 to 31 March 2017 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 2017.
- 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 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:

- Neighbourhood Services – Grants
- Grot Spots Funding
- Off Contract Spend within Grounds Maintenance and Park and Green Spaces

Further details on each of these can be found in our Internal Audit Progress Report as presented to the Audit Committee in March 2017.

### 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

Children's Trust

Resilience of the Medium Term Financial Strategy

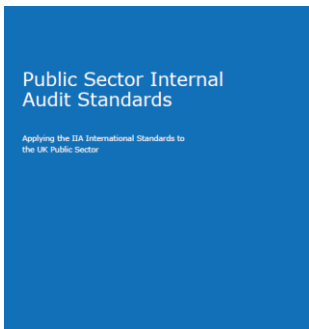
Land Sales and Other Matters

Compliance with Contract Procedure Rules and Allocation of Grants

Business Continuity

Further details on each of these can be found in the 2016/17 Annual Governance Statement.

### 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 2017/18.

#### *Audit Plans*

Indicator	Actual
Audit Plan produced in advance of the year to which it relates (i.e. prior to 1 April 2016)	Yes – Audit Plan produced and distributed in February 2016

#### *Recommendations*

Indicator	Actual
90% of 2016/17 recommendations accepted by council management (where response received)	100%
% of key recommendations made in 2015/16, followed up and confirmed as implemented on time by management	85%

No. of 2015/16 key recommendations followed up	No. of key recommendations implemented	% implemented by management
40	34	85

#### *Non-implementation of agreed recommendations*

We were pleased to note that a large proportion of agreed key recommendations had been implemented. The only areas where they had yet to be implemented were:

- Local Area Budgets - during the year the processes and procedures for this funding were being updated. This was followed up as part of our wider grants review where further weaknesses were found and additional recommendations made.

- Payroll - a recommendation relating to maintaining procedure notes has not been fully implemented. This will be followed up later in 2017.
- Business Continuity - recommendations from our last review were still not fully implemented, these will be picked up as part of our next planned audit.

### Relationships

Indicator	Actual
Feedback obtained from report recipients (target 4 out of 5)	4.5 (see table below for a detailed breakdown)
Satisfaction of Audit 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 2015/16
Usefulness of audit	4.4	4.3
Value of recommendations	4.4	4.5
Usefulness of initial discussions	4.6	4.7
Fulfilment of scope & objectives	4.5	4.5
Clarity of report	4.6	4.7
Accuracy of findings	4.8	4.8
Presentation of Report	4.8	4.7
Time span of audit	4.4	4.5
Timeliness of audit report	4.4	4.5
Consultation on findings/recommendations	4.5	4.3
Helpfulness of auditors	4.5	4.6
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 2016/17



## Staffing

Indicator	Actual
% of Audit Services' staff 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 2016/17

The following tables below list all the reports issued by internal audit during 2016/17, 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 2016/17*

AAN	Assessment of Assurance Need Rating
*	Awaiting Response (all longstanding responses will be brought to the attention of the Audit 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	
Burnt Tree Primary	Medium	-	-	5	5	5	Good
Eaton Valley	Medium	-	-	2	2	2	Outstanding
Guns Village Primary	Medium	-	1	8	9	9	Satisfactory
Pennyhill Primary	Medium	-	1	6	7	7	Good
Tividale Hall Primary	Medium	-	2	8	10	10	Satisfactory
Rounds Green Primary	Medium	-	-	5	5	5	Good
St Matthews Primary	Medium	-	1	4	5	7	Good
St James CE Primary	Medium	-	1	6	7	7	Satisfactory
Bleakhouse Primary	Medium	-	1	4	5	5	Good
Hamstead Infant School	Medium	-	-	7	7	6	Good
St Marys Primary School	Medium	-	-	8	8	8	Good
School's Financial Value Standard	NA	-	-	-	-	-	NA
Harvills Hawthorn Teaching School Grant Claim	NA	-	-	-	-	-	NA
Local Government Pension Certification	High	-	-	-	-	-	Substantial
Neighbourhood Services – Grants	NA	1	-	-	-	1	Limited
Grot Spots Funding	NA	1	-	-	-	1	Limited

Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Off Contract Spend within Grounds Maintenance and Parks and Green Spaces	NA	2	-	-	-	2	Limited
Payroll	High	-	1	-	1	1	Satisfactory
Accounts Payable	High	-	2	-	2	2	Satisfactory
Accounts Receivable	High	-	-	-	-	-	Substantial
Capital Accounting	High	-	-	-	-	-	Substantial
General Ledger	High	-	1	-	1	1	Satisfactory
Budgetary Control	High	-	-	-	-	-	Substantial
Treasury Management	High	-	-	-	-	-	Substantial
Council Tax	High	-	-	-	-	-	Substantial
Non-Domestic Rates	High	-	-	-	-	-	Substantial
System Security – Financial Systems	High	-	2	-	2	2	Satisfactory
Rent	High	-	-	-	-	-	Substantial
Elections: Postal Voting	High	-	-	-	-	-	Substantial
Mayors Accounts	Medium	-	-	-	-	-	Substantial
Carbon Reduction Certification	Medium	-	-	1	1	1	Substantial
Sandwell Safeguarding Children Board	NA	-	3	-	3	3	Satisfactory
Procurement	High	-	-	2	2	2	Substantial
Youth Offending Service	Medium	-	-	2	2	2	Substantial



## 5 Key Issues arising during the year

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

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

- Schools (3)
- Further Education Funding (stage one)

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

- Schools (6)
- Sandwell Safeguarding Children Board

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

- Schools (2)
- Further Education Funding (stage two)
- Payroll
- Neighbourhood Services - Grants
- Grots Spots Funding
- Off Contract Spend within Grounds Maintenance and Parks and Green Spaces

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

### *Key Financial Systems*

Our report on the council's key financial systems was issued in quarter four, and provided satisfactory assurance over the full range of financial systems and processes. The review did identify six significant issues where recommendations were made and agreed with management, relating to:

- An excessive number of 'generic user ID's' which provided access to the council's network. This reduces the effectiveness of the transaction audit trail (however, it should be noted that this does not constitute a fundamental issue as access to any specific system requires a further user ID and password).
- A number of journal transaction reviews had been input to the general ledger, but had not been reviewed in line with the agreed timeframes.
- There were isolated instances where access to SBS, had not been revoked, for staff who had recently left the council.
- A lack of monitoring control to confirm the accuracy of creditor bank account details when changes are made to the account details on SBS.
- 'User privileges' for four staff, previously involved in the process to change supplier details on SBS, had not been promptly removed.
- The write up of payroll procedures had not been progressed from the previous audit in 2015/16, as noted in section 3 above.

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

During the year, a significant amount of internal audit time was spent with the Counter Fraud Unit on investigating a number of allegations into potential fraud and misconduct. This included reporting back to the council's Audit and Risk Assurance Committee on:

- Land sales to Councillor Bawa and Councillor Hussain regarding Compulsory Purchase Orders on their homes
- Housing allocations to members of Councillor Hussain's family
- Councillor I Jones and Councillor Rouf's involvement in the disposal of a plot of land.
- The allocation of a council property to Councillor Frear
- Former Councillor Rowley's involvement in the disposal of a number of council owned containers to a member of the public
- Former Councillor Rowley's involvement in the hire of marquees
- The lease arrangements for the council offices at Roway Lane
- Wednesbury Celebrates
- Hill Top Community Development Association
- Concerns that two employees had landscaped their properties using Council materials
- Concerns that the council had paid for the removal of an electricity sub-station as part of the arrangements for the sale of a plot of land at Florence Road to a member of Councillor Rouf's family

### *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. In addition, for 2016/17, each Cabinet Member has also completed an assurance statement.

#### *Governance Board*

We have membership on the recently established 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.

#### *CIPFA – Audit Committee Updates*

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

#### *Internal Audit Charter*

We undertake and present to the Audit Committee an annual review of the Internal Audit Charter. The latest version was presented and approved at the 26 January 2017 meeting of the Committee.

#### *Audit Committee – Terms of Reference*

We complete an annual review of the Audit Committee Terms of Reference. The latest version was presented and approved at the 23 March 2017 meeting of the Committee.

### *Audit Committee – Self Assessment of Good Practice and Effectiveness*

The Audit Committee commenced a self-assessment of good practice and effectiveness exercise, based on the model provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) in their Audit Committees – Practical Guidance for Local Authorities. Internal Audit is facilitating this exercise.

### *Internal Audit Plan 2016/17*

We submitted the Internal Audit annual plan for 2017/18 to the Committee for approval at the 23 March 2017 meeting.

### *Audit Committee Annual Report*

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

### *Facing the Future Quality Circles*

We have participated in the council's quality circle groups relating to the introduction and use of procurement cards as a means of reducing costs and for providing better financial information to budget holders.

### *IMPRESS Project*

We have supported the implementation of the IMPRESS project by providing feedback on control issues and facilitated a risk management workshop, which focused on project management risks and the development of a corresponding risk register.

### *Lean Reviews*

We have provided support as part of the review of the call centre arrangements for the Multi Agency Safeguarding Hub (MASH) review. An analysis of how many calls were referred through to the MASH and whether they were directed to the appropriate team to deal with, formed part of this review. Feedback was provided on what was found and recommendations made where appropriate.

### *Children's Trust*

We participated in a data audit within Children's Services in preparation for the transfer of the service to the Trust and in anticipation of the new General Data Protection Regulations (GDPR) requirements. This review mapped and logged the many ways data was collected, used, shared and stored; and to provide assurance that Children's Services were effectively managing the data they controlled.

### *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 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
- West Midlands Fire Service
- The City of Wolverhampton Council
- West Midlands Pensions Fund
- West Midlands Combined Authority
- Wolverhampton Homes

### *CIPFA Annual Audit Conference*

Finally, in our quarter two progress report we reported to the Audit Committee that we had taken part with the Local Government Association (LGA) in their diagnostic and peer review of the Sandwell Safeguarding Children Board. In an innovative approach that had not been trialled in any other local authority, a member of the internal audit team was embedded within the peer review team.



### *Auditing Services for vulnerable people*

CIPFA Annual Audit Conference  
Oxford  
11 May 2017



The on-site work took place over three days and the team (including the auditor) interviewed over 50 key stakeholders, either individually or as part of focus groups, as well as undertaking a comprehensive review of current documentation and an audit validation exercise of the Boards multi-agency audits.

Following this we were approached by CIPFA and invited to do a presentation on our innovative approach at the CIPFA Annual Audit Conference held in Oxford. This event was attended by Heads of Audit from across the country and we received very positive feedback on the day, with many other local authorities indicating that they would look to replicate this exercise.