

Internal Audit Progress Report @ 30 November 2018



1 Introduction

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

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

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

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

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

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

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

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

2 Summary of Work Completed between 1 April and 30 November 2018

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

Auditable Area	AAN rating	Recommendations			Total	Number accepted	Level of Assurance
		Fundamental	Significant	Merits attention			
Reported upon previously:							
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
Reported for the first time:							
Personal Budgets	High	2	8	1	11	*	Limited
Procurement – Public Health	High	-	-	-	1	*	Substantial
Perryfields High School	Medium	-	2	9	11	*	Good

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Auditable Area	AAN rating	Recommendations			Total	Number accepted	Level of Assurance
		Fundamental	Significant	Merits attention			
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	*	Limited
Public Buildings – Gas Safety	Medium	4	-	-	-	4	Limited
Rowley Regis Local Office ‘Cash up’	Medium	-	1	1	2	*	Substantial
West Bromwich Library - Cash and Banking	Medium	-	3	-	3	3	Satisfactory
Carbon Reduction Commitment	N/A	-	-	-	-	-	N/A

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Audits underway as at 1 December 2018
Voluntary Sector Leases
Budgetary Control
Main Accounting System
Allocations Policy
Grants follow-up
Stuart Bathurst High School
Procurement – Adult Social Care

3 Key issues arising for the period 1 October to 30 November 2018

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

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.

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- 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.

School Audits

We continued with our annual school audit programme, and one review has been undertaken to assess whether the school had adequate governance, risk management and control processes in place to ensure that financial management and governance arrangements were satisfactory.

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.

4 Other activities undertaken by Audit Services

CIPFA – Audit Committee Updates

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

Audit and Risk Assurance Committee – Terms of Reference

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

Internal Audit Plan 2018/19

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

Internal Audit Annual Report 2017/18

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

Audit and Risk Assurance Committee Annual Report

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

Internal Audit's role in investigating allegations of Fraud

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

Annual Governance Statement

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

Advice and Guidance

We provide on-going advice and guidance to the council to assist with the continuous improvement of the overall control environment and to ensure compliance with relevant new legislation, for example, the General Data Protection Regulations.

Internal Audit Charter

We submitted the Internal Audit Charter to the committee for annual review at its November 2018 meeting.

Liaising with the External Auditors

We continue to have on-going dialogue with the External Auditors for the council, to maximise audit coverage and to provide assurance on the overall control environment.