

Internal Audit Progress Report @ December 2019



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 2019/20 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 April and December 2019

AAN	Assessment of Assurance Need Rating (High/Medium risk).
*	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.

Auditable Area	AAN rating	Recommendations			Total	Number accepted	Level of Assurance
		Fundamental	Significant	Merits attention			
Annie Lennard Primary School	Medium	-	4	10	14	14	Satisfactory
Stuart Bathurst High School	Medium	-	2	8	10	*	Satisfactory
Shenstone Lodge/Brades Lodge School	Medium	4	12	13	29	29	Inadequate
Wednesbury Local Service Centre 'Cash up'	Medium	-	-	-	-	-	Substantial
Stores	Medium	-	3	1	4	4	Satisfactory
Bank Account Changes, Follow up	Medium	2	2	-	4	4	Limited
Riverside, Rents	Medium	1	2	1	4	4	Limited
Compliance with GDPR, Housing Tenancy Files	Medium	1	2	-	3	3	Limited
Riverside, Environmental Challenge Fund	Medium	-	3	1	4	4	Satisfactory
Riverside, Fire Prevention	Medium	1	4	1	6	6	Limited
Boscobel, Rent Arrears and GDPR	Medium	3	2	-	5	5	Limited
Accounts Payable	High	1	2	-	3	3	Limited

[ILO: UNCLASSIFIED]

Audits underway as at December 2019
Fees and Charges
Housing Allocation Policy and Tenancy Agreements
Main Accounting System
Payroll
Budgetary Control
Accounts Receivable
Treasury Management
NNDR
Benefits
Voluntary Sector and Hardship Grants
Hateley Heath Primary School

3 Key issues arising for the period April to December 2019

Shenstone Lodge/Brades Lodge School

A review was 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. We identified a large number of issues including:

- An instance where contract and procurement rules had not been complied with in obtaining the correct number of quotes/tenders and it was unclear how the evaluation process was undertaken in determining to whom to award the contract. Approval to award this was given through Chair's action. While this was then reported at the next Governing Body meeting, the minutes did not reflect the value of the contract and stated that a full tendering exercise had been undertaken, which was not the case.
- The Minutes of the Resources Committee indicated approval for taking out a lease agreement. However, what was not detailed within the minutes was the procurement route that had been followed and the value of the lease. As such, it was not clear that the governors had made an informed decision when approving the purchase as to whether it offered value for money.
- The security and usage requirements and responsibilities outlined within the procurement card scheme were not adhered to as the card and its pin number were accessible to three employees in addition to the designated card holder. It was confirmed that the card had been used by at least one employee other than the designated card holder. As such, the school would be been exposed to the risk of potential fraud and financial loss. Similarly, there were security concerns over access to key to access the safe at Shenstone Lodge.
- The lettings policy and associated fees and charges were not reviewed and approved by governors on a regular basis. The fair funding scheme states a review should be undertaken annually, but the school had elected to operate a review on a three-year cycle.

- Internal budget holders were not supplied with regular data to enable them to monitor their individual budget.
- Overtime at Brades Lodge was not being well controlled. It was identified that on occasions time of in lieu had been converted to overtime. This indicates that the payment of overtime was not agreed in advance.
- Pupil premium reporting to governors was not consistent. Evidence was not available to demonstrate that regular reporting on its use was taking place so that governors could be assured that it was being used effectively. Also, for the pupil premium grant the school is required to publish reports on its website as to how the previous year's grant was used and the impact it had on attainment and for the current year how the grant is proposed to be used. Such reports were published, but they lacked the level of detail to meet the reporting requirements.
- Governors had not undertaken a formal review of the staffing structure during the past 12 months as a means of ensuring it was appropriate for meeting the current and on-going needs of the school.
- The fair funding scheme details the financial procedures, contract procurement rules and other key processes that should be followed by staff and governors. It was identified that not all employees and governors were formally made aware of this key document and as such, may not be aware of the formal requirements contained within relating to their roles and responsibilities on financial management and governance.
- A direct debit applied to the school's bank account did not receive the authority's prior approval. The authority is required to approve such direct debits as a means of controlling the possible impact upon its borrowing capability.
- The second cheque signatory at Shenstone Lodge was not being supplied with sufficient supporting documentation to adequately validate the legitimacy of payments. This is a key control and non-compliance exposes the school to the risk of the payments process being abused.
- Orders were generally not being raised in advance of receipt of the invoice which undermines the principle of commitment accounting and could result in budgets becoming overspent, as well as bypassing the agreed order approval process.
- Anomalies were identified with individual employee's access rights to the schools' financial system resulting in a weakening of the control environment.

Bank Account Changes - Follow up

A follow up review of Changes made to Bank Accounts was undertaken in order to ascertain if the process was being appropriately controlled following an instance whereby the council had previously been the victim of a bank mandate fraud resulting in the loss of £16,000.

We found that checks were not being undertaken on changes to supplier bank details where requests for changes originated from service areas. This could result in unauthorised bank account changes still taking place. Additionally, evidence was not available of the six-monthly review of access rights, and the BACS recall spreadsheet had not been regularly updated to confirm that funds had been successfully returned to the council.

Compliance with General Data Protection Regulations, Housing Tenancy files

The revised General Data Protection Regulation Act which came into effect in May 2018 impacts upon all services that collect and use personal data, for example names, addresses, email addresses, etc. The three elements of the Act are lawfulness, fairness and transparency.

Article 5(1)(e) states:

'Personal data shall be kept in a form which permits identification of data subjects for no longer than is necessary.'

The Act however, does not set specific time limits for different types of data. This is up to service areas to decide how long the information will need to be retained to maintain its usefulness. Personal data held for too long will, by definition, be classified as unnecessary.

Our review focussed upon records management within the council's tenancy files at four local service centres. We found that personal documentation no longer relevant was being held within the files dating back over a number of decades. We also found that a document retention policy was not in place to help ensure compliance with the Act.

Riverside, Rents

Riverside manage 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 and former tenants' arrears. This review was undertaken to ensure that recommendations made in the previous year had been implemented. While a number of our recommendations had been implemented, there were others that had yet to be so, including:

- The rent debit reconciliation which provides a reconciliation of all the changes raised/rent debit each month was still not completed each month in a timely manner.
- IT issues with the new system had continued to hinder some of the everyday processes.
- The number of tenants in arrears had continued to rise.
- Although forming part of the contract, rent statements were not always sent out to tenants on a quarterly basis.

Riverside, Fire Prevention

A number of fire checks by Riverside are undertaken on an high rise and four low rise flats in order to ensure compliance with current legislation and Fire Authority recommendations. We reviewed the processes and procedures against legislation, best practice and contract performance targets. We noted that:

- There was no evidence retained of the annual Fire Suppression System inspection certificates and Mechanical Service Certifications for 2015 and 2016. This did not comply with fire safety requirements and best practice as documentation should be retained for six years.
- Only three quarterly Fire Prevention Procedure inspections were being undertaken by Riverside.
- As part of a Fire Risk Assessment undertaken by a building surveyor in April 2018, an inspection level of 'tolerable' was given and actions requested that needed to be undertaken by specified target dates. While an update and photographs had been provided, there was no evidence of its actual sign off or whether the work completed was fit for purpose.

Boscobel, Rent Arrears and GDPR

A Tenant Management Organisation (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. The council has responsibility to monitor performance, policies and governance. A grant is provided to the TMO by the council to undertake this work. Boscobel TMO was formed in 2001 and became fully operational in 2010. The TMO provides housing related services to council tenants living on the estate and are currently responsible for 115 properties. The day to day management of the properties is undertaken by one full-time and one part-time member of staff. During our audit we identified a number of issues where improvements could be made, arising from the following:

- The contract did not include any GDPR obligations within it. The council is classified as the data controller any GDPR issues involving records management, which if not addressed could result in a liability for the council.
- Confidential information could potentially be viewed by other tenants who were part of the TMO Board, this would be in breach of GDPR regulations.
- Although current arrears were monitored on a weekly basis, the formal process of sending out letters was not always acted upon in a timely manner.

Accounts Payable

Creditor payments are made using the Oracle Accounts Payable system. The payment process is operated by the Procurement Services team, with reconciliations relating to accounts payable being carried out by the Systems Team. Responsibility for raising orders and confirming receipt of goods rests with the individual service areas. We found that a number of recommendations made in the previous year's audit had still not been implemented. These included the following:

- Each budget holder and requisitioner receives a spreadsheet of all 'open orders' across the council, which includes all the other budget holders cost centre information. We noted that there was excessive information being recorded and thereby shared in the purchase order description field of this report. This included the names and addresses of carers and the names of children currently receiving support. Once highlighted - this was acted upon immediately by the service manager.
- The duplicate payments report was not being evidenced as being subject to review.

4 Other activities undertaken by Audit Services

Member Development Programme

As part of the Member Development Programme we delivered four training sessions on the role of Internal Audit, Risk Management and Counter Fraud to over 30 Members in October 2019.

CIPFA – Audit Committee Updates

We continue to present the regular CIPFA Audit Committee Updates to the committee as and when they are published.

Audit and Risk Assurance Committee – Terms of Reference

We continue to review and update the Audit and Risk Assurance Committee Terms of Reference where appropriate.

Internal Audit Plan 2019/20

The Internal Audit annual plan for 2019/20 was submitted to the Audit and Risk Assurance Committee at its meeting in March 2019.

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

We continue to take part in investigations into allegations of fraud and misconduct.

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.

Liaising with the External Auditors

Where required, we continue to work with and assist the council's external auditors.