

# Annual Internal Audit Report - 2019/20



 Sandwell  
Metropolitan Borough Council

## 1 *Introduction*

1.1 Our internal audit work for the period from 1 April 2019 to 31 March 2020 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

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 2020.
- 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 2019/20.
- 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 or 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:

- Shenstone Lodge/Brades Lodge School
- Bank Account Changes Follow Up
- Riverside - Rents

- Compliance with GDPR - Housing Tenancy Files
- Riverside - Fire Prevention
- Boscobel - Rent Arrears and GDPR
- Accounts Payable
- Fees and Charges
- Rents
- Voluntary and Community Sector Leases

*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
- Data Protection Act 2018 (incorporating GDPR)
- Cyber Security
- Governance arrangements (Covid-19)
- Commonwealth Games Aquatic Centre
- Outsourcing to the Voluntary Sector
- Inclusive Economy Deal
- Covid-19 Reset and Recovery
- Sandwell Land and Property Ltd
- Brexit

Further details on each of these can be found in the 2019/20 governance statement.

*Internal audit's role in fraud investigations*

During the year, a proportion of internal audit time was spent working with the Counter Fraud team on a range of fraud investigations. The outcome of key investigations are reported where appropriate, separately to the Audit and Risk Assurance Committee through the regular Counter Fraud Update Reports.

## *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, beyond those that resulted in a significant delay in the signing-off of the 2018/19 statement of accounts, and which will be reported directly to the Audit and Risk Assurance Committee by the External Auditors.

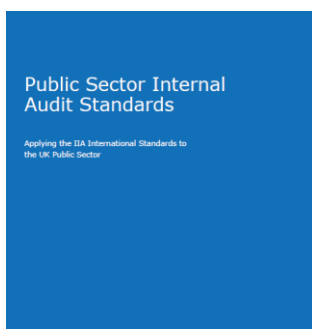
## *Key risks the council faces*

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.

## *Covid-19*

Towards the end of the year, and in response to Covid-19 members of the internal audit team were redeployed to work on welfare calls or the small business grant team set up in order to process and distribute the grant payments under the scheme introduced by the Government. As this was towards the year-end it did not necessarily adversely impact upon the delivery of the 2019/20 Internal Audit Plan.

### 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 initially planned for 2019/20 has been deferred until 2020/21.

#### *Audit plans*

Indicator	Actual
Audit Plan produced in advance of the year to which it relates (i.e. prior to 1 April 2020)	Yes – although as a result of Covid-19 and the Audit and Risk Assurance Committee not meeting for several months, the 2020/21 Internal Audit Plan was not presented to the Audit and Risk Assurance Committee until September 2020.

#### *Recommendations*

Indicator	Actual
90% of 2019/20 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 2019/20

### Staffing

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

Customer satisfaction questionnaires accompany each planned audit. From the responses returned, the average scores were as follows:

Question	Average Score 2018/19	Average Score 2019/20
Usefulness of audit	4.6	4.7
Value of recommendations	4.6	4.6
Usefulness of initial discussions	4.5	4.6
Fulfilment of scope & objectives	4.6	4.8
Clarity of report	4.7	4.6
Accuracy of findings	4.7	4.8
Presentation of Report	4.8	4.6
Time span of audit	4.6	4.5
Timeliness of audit report	4.5	4.6
Consultation on findings/recommendations	4.6	4.5
Helpfulness of auditors	4.8	4.7
<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 2019/20*

The following tables below list all the reports issued by internal audit during 2019/20, 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 to match the assurance categories awarded by Ofsted, which is based on the following:

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 2019/20*

AAN	Assessment of assurance need rating
*	A response was not received prior to the school converting into an Academy. We later prepared a briefing note flagging a number of issues as part of a review of the conversion process.
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>							
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
<b>Reported at this Committee meeting for the first time:</b>							
Budgetary Control	KFS	-	1	1	2	2	Satisfactory



Auditable area	AAN rating	Recommendations					Level of assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Disabled Facilities Grant Certification	N/A	-	-	-	-	-	N/A
Main Accounting System	KFS	-	-	-	-	-	Substantial
Cotterill's Farm TMO	High	-	4	2	6	6	Satisfactory
Fees and Charges	Medium	1	-	-	1	1	Limited
Accounts Receivable	KFS	-	3	-	3	3	Satisfactory
Payroll	KFS	-	3	-	3	3	Satisfactory
Treasury Management	KFS	-	1	1	2	2	Satisfactory
NNDR	KFS	-	-	-	-	-	Substantial
Benefits	KFS	-	-	1	1	1	Substantial
Council Tax	KFS	-	-	-	-	-	Substantial
Insurance and Risk – Duplicate Payments	N/A	-	3	-	3	3	Satisfactory
Sandwell Valley Crematorium cash procedures	Medium	-	2	-	2	2	Satisfactory
Financial Security Controls Follow up	Medium	-	1	-	1	1	Satisfactory
ICT Cyber Security and Controls	High	-	3	2	5	5	Satisfactory
Rents (Council)	High	1	9	1	11	11	Limited
Voluntary and Community Sector Leases	High	2	4	-	6	6	Limited
Grants – Neighbourhood Services	High	-	4	2	6	6	Satisfactory

## 5 Key issues arising during the year

Key issues that arose during Q1 and Q2 have already been flagged to the Audit and Risk Assurance Committee in previous audit progress reports. The following issues are brought to the Audit and Risk Assurance Committee's attention for the first time:

### *Budgetary Control*

The General Fund Revenue Budget for the council is held on the General Ledger module 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. An issue was identified regarding the requirement for budget holders to sign a budget accountability letter accepting responsibility for the budget under their control. Examples were found of accountability letters not being signed and returned and there not necessarily being a consistent approach to pursuing outstanding responses.

### *Disabled Facilities Grant Certification*

Assurance was provided to the MHCLG (Ministry of Housing, Communities and Local Government) that having carried out appropriate investigations and checks, that in all significant respects, the conditions attached to the Disabled Facilities Capital Grant Determination Additional Funding 2018/19 had been complied with.

### *Main Accounting System*

The Main Accounting System (MAS) for the council resides on the General Ledger module 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 the MAS, including reconciliations and suspense accounts. No issues of significance were identified.

### *Fees and Charges*

The council levies a wide range of fees and charges for many of its services, with some discretionary and others either specified or restricted by legislation or government policy. Fees and charges income accounts for around £15m of the council's annual income. A review was undertaken to ensure that fees and charges were being effectively managed. The audit highlighted issues arising from:

- There was no clear charging/pricing strategy in place. Service areas were informed that prices could increase by up to 3% without prior approval. Without a formal policy there had been a varied interpretation by service areas as to how to apply this increase and therefore, no real consistency in approach.
- There appeared to be no process in place by which service areas undertook a cost analysis to determine accurate charges, thereby ensuring that they at least break-even. There was no mechanism in place to ensure fees and charges were reviewed and that the council was making regular informed decisions.
- A review of the council website highlighted that although it advertises the availability of services, it does not inform on what the costs will be or provide details of any price changes.

### *Accounts Receivable*

The accounts receivable module is used to raise invoices. This includes for residential care, trade waste, rents for market pitches, business properties and bereavement services etc. A review was undertaken to ensure that an effective system was in place for raising invoices and managing debtors. This included the integrity and reliability of charging information recorded in

the accounts, the collection of payments and the process to monitor and report the debtor position. The audit highlighted that:

- Recovery action had stalled on invoices relating to the Black Country Partnership NHS Foundation Trust which had since dissolved. The Trust had offered to pay 50% of the debt but action had yet to be taken.
- There was no comprehensive procedure for dealing with surplus funds accumulating from direct payments made to meet individual care needs.
- The council debt write-off procedure had not been updated since 2014.

### *Payroll*

A review of the payroll process was undertaken to ensure that the council had appropriate controls in place to mitigate the risk of fraud and error in the calculation, recording and payment of the payroll. The audit identified the following:

- A comprehensive set of payroll procedures had not been established. This was due in part to the impending introduction of a new system which might require a revision to current working practices.
- There are two separate processes in operation for variation changes, the use of paper records and through 'Firmstep'. 'Firmstep' allows Managers to request changes through the system together with having HR and Finance approval and it is considered that all variations should be processed in this manner.
- There was no defined process for capturing the agreement, submitting, authorising and verifying of overtime claims.

### *National Non-Domestic Rates*

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

### *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. Again, no issues of significance were identified.

### *Insurance and Risk – Duplicate Payments*

We noted that a reconciliation between Figtree and SBS was not undertaken and when a BACs recall was required, there was no check made to ensure it was returned.

### *ICT Cyber Security*

An audit of areas with the Cyber Security processes was undertaken as part of the 2019/20 audit plan. The audit identified a small number of areas where improvements could be made. These have been agreed with management, but are not detailed here for security purposes.

### *Rents, Council*

We noted that key issues raised in our previous review of this area had yet to be fully addressed. There continued to be a lack of detailed audit trail along with a single person dependency/lack of separation of duties and lack of supervision. Therefore, little assurance could be given that rent calculations, reconciliations and the annual Housing Benefit Subsidy claim form had been processed accurately. We also noted that:

- The valuations provided to Rent Control and the New Build Team were not consistent for two-bedroom properties, creating a difference between the SHAPE Housing system and Homes England Information Management System.
- The reconciliation of the housing stock held in the Housing Management system (SHAPE) system, continued not to be undertaken on a regular basis.
- There was a marked difference for the average weekly rent calculated in the Housing Benefit Subsidy claim from 2018/19 to 2019/20.
- There were differences when posting rent journals to the General Ledger from SHAPE and balancing to the information coming from Northgate, the Benefits System.

### *Voluntary and Community Sector Leases*

The council has a large number of lease arrangements with a variety of Voluntary and Community Sector Organisations. In line with the council's policy on Land and Premises for the Voluntary and Community Sector, these arrangements are rightly viewed differently from the rest of the council's asset base as many of these organisations would have limited resources in order to pay full rent and they can play a valuable role in helping the council deliver its priorities.

Therefore, these organisations should have their annual rental fee based on an assessment including that of their ability to pay. In the majority of cases this has been set at a peppercorn rent. Many of these arrangements have been entered into over a period of time dating back several years and against a backdrop of changing delegated authorities and policy reviews, so it is accepted that it may well have been difficult to ensure consistency in approach over the years.

However, over time there had become a fragmented and inconsistent approach in the awarding, administering and monitoring of these leases. The requirement to comply with council policy and the spirit behind many of its requirements appeared to have drifted. It also appeared to have become standard practice to award peppercorn rents without any consistent challenge or formal assessment of eligibility, and the advice of both Property Services and the Voluntary Sector Support team had on occasions been overlooked.

As a result, the council found itself in the position of having a number of properties occupied on a peppercorn rent, on occasions based on judgement that appeared to be at odds with the council's policy, and with no formal lease arrangements in place. This is also set against a wider lack of clarity on issues such as occupancy, break clauses, length of lease and insurance and repair arrangements.

As a result of our findings we recommended that the area be subject to a detailed management review in order to make the changes necessary to ensure that the council's policy remains fit for purpose, is in line with the new Sandwell Vision, and most importantly is fully complied with.

Following our recommendations, the council commissioned a company through the Crown Commercial Services Framework to undertake a full review of the council's lease arrangement including both the commercial and voluntary and community sectors. They have recently reported back on the outcome of their review and a number of actions are now being progressed.

## *Grants – Neighbourhood Services*

An audit of the procedures in operation for the use of various grants, predominantly within Neighbourhood Services was undertaken. At the time of our review the council operated a variety of grant schemes, and our audit focussed upon Town Grants, Financial Well-Being Grants, Community Partnership Grants, Community Centre Grants and Shows and Events Grants. Our review noted:

- A need to review and refresh the overarching Third Sector Funding Strategy and Voluntary and Community Sector Grant Funding Guidance and Procedures.
- A need to streamline the number of, and different grant funding streams in place, similarly with regards to the different processes and forms used to administer these.
- In certain cases the guidance and the procedures were not always being strictly followed. This included maximum grant levels being exceeded and a number of grants being rolled- over with the same organisations
- A lack of a clear strategic overview as to if longer standing grant funding arrangements were still the best approach to provide/fund certain activities. Some arrangements involved larger sums and were in place for many years. It was not always clear if the use of grants was the most appropriate manner to fund these, or if a contract/service level agreement would be a more suitable manner.
- There was inconsistent monitoring on the use of grants across the various streams to ensure that a satisfactory level of performance was achieved. While some grants had quite close monitoring, either after a specific one-off event or through timetabled visits, other grants had no clear monitoring processes. Also, a number of performance targets were by their nature difficult to independently verify back to any source documents (for example around attendance at events and volunteer hours) and often reliance had to be placed on information offered and returns prepared, by the grant recipients.
- A continuing need to ensure that the use of funds aligns to Vision 2030.

Following our review, the council formed an Investing in the Voluntary and Community Sector Operational Group and the process for dealing with such grant funding was subject to a strategic overview.

In September 2019 Cabinet approved the replacement of the Third Sector Funding Strategy with a new Voluntary and Community Sector Funding Protocol.

In March 2020 agreement was sought from Cabinet to a three-year grant for SCVO (Sandwell Council of Voluntary Organisations), bringing together a range of funding streams into a single grant agreement. With an aim that by bringing together fragmented funding into a single funding agreement, this would save time and money in terms of grant administration, provide greater stability for the SCVO staff team (leading to better services), and provide better awareness of the SCVO core funded offer. These changes should hopefully bring an independence and a fresh approach to how a number of council wide grants are administered.

## **Audit Services also play a role in the following areas**

### *Annual Governance Statement*

We help in 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 January 2020 meeting of the Committee.

### *Audit and Risk Assurance Committee – Terms of Reference*

We complete a regular review of the Audit and Risk Assurance Committee Terms of Reference. The last version was presented and approved at the March 2019 meeting of the Committee and the latest version will be reviewed prior to the 2020/21 year-end.

### *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, the Head of Internal Audit and members of the audit team have a 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