

Internal Audit Progress Report as at 31 December 2020



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 2020/21 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 2020 and 31 December 2020

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			
Discretionary Housing Payments	N/A	-	1	1	2	2	Satisfactory
Local Transport Revenue Block Funding (Blue Badge New Criteria Implementation)	N/A	-	-	-	-	-	N/A
Tusker Car Scheme and Mileage follow up	Medium	-	-	-	-	-	Substantial
Council Complaint Process	Medium	-	2	1	3	3	Satisfactory
Procurement Cards	Medium	-	4	-	4	4	Satisfactory
New Build Development Programme	Medium	-	2	1	3	3	Satisfactory
Housing Benefit Subsidy Claim Certification	N/A	-	-	-	-	-	N/A
Cotterills Farm TMO, Rents	Medium	-	-	2	2	2	Substantial
Accounts Payable	High	-	3	-	3	3	Satisfactory
Bank Account Changes follow-up	High	-	2	-	2	2	Satisfactory
Day to Day Repairs	N/A	1	3	-	4	4	Limited
Facilities Management and Roofing Contracts	N/A	2	4	-	6	6	Limited
Further Education Funding Grant	N/A	-	-	-	-	-	N/A
School's Financial Value Standard	N/A	-	-	-	-	-	N/A

[ILO: UNCLASSIFIED]

Audits underway as at 31 December 2020
• Payroll
• Benefits
• Budgetary Control
• Council Tax
• Main Accounting System
• Accounts Receivable
• Aquatic Centre
• Riverside – Leaseholders
• Riverside – Rents
• Boscobel Tenant Management Organisation – Rents
• Personal Budgets and Direct Payments

3 *Key issues to bring to the committee's attention for the period 1 April to 31 December 2020*

Council Complaints Process

As part of our review we looked at the processing of 20 complaints through the system in use. We noted that in three cases a record of the response had not been recorded on the system. However, by further investigation we were able to confirm that the complaints had been responded to, just not recorded as so on the system. We recommended that all completed cases should be recorded accordingly. Also, in a further two cases while these had been recorded as resolved through telephone conversations, it was our view that all such instances should also be confirmed in writing.

Discretionary Housing Payments

Discretionary Housing Payments (DHP) are an additional sum of money that can be paid if an applicant lives in Sandwell and receives Housing Benefit or Universal Credit (Housing Element) and requires additional help to meet their housing costs. DHP's can be paid regularly along with Housing Benefit based on a weekly basis or by lump sum. We noted that payment reports run from the system did not reconcile to the spreadsheet retained within the team highlighting the number of payments made. We understand that this was a timing issue, but noted that the transactional analysis report which substantiates these figures and would help reconcile these documents was not routinely retained. It was agreed that this report will now be retained, and these reconciliations are now regularly reviewed

Procurement Cards

We undertook a review of the use of Council Procurement Cards, paying particular attention to the period following the outbreak of Covid-19, where as part of the emergency response a number of procurement cards had their limits temporarily increased. We noted that the recording of information onto the bank's Smart Data Online (SDOL) system which is used to

upload information by the card holder and the budget holder to authorise the payments, had not always been undertaken in a timely manner. We also found occasions when goods were being purchased from external suppliers when there were contracts already in place with other suppliers. However, this was during the early period of the pandemic and we acknowledge that in certain cases, ease and speed of delivery was of particular importance. We also noted that in one case an officer had access to two procurement cards, when procurement card holders should be assigned their own individual card. Also, while there were some delays in reducing the increased limits back down to pre-COVID 19 limits, this had now been undertaken.

New Build Development Programme

With proposals from Government to speed up the planning processes councils are exploring ways to increase house building within their areas. With over 6,000 people on the Council's Housing Register in Sandwell and 65% requiring properties with two or more bedrooms, additional affordable housing is needed across the borough. Our review noted that at the time there was no explicit overarching approach towards this programme. However, work was underway to produce this. We also noted that recommendations made in the projects financial appraisal report were not being pursued, and there had yet to be a detailed need and demand study in order to provide each area's demographic profile.

Accounts Payable

An annual review of this key financial system was undertaken in order to confirm that appropriate controls were in operation over the council's payment systems and that payments were made in an accurate and timely manner. We noted that there were still areas within individual recommendations from our previous review where actions could still be improved. These were:

- While a spreadsheet was now in place to evidence any actions taken for duplicate payments, any potential overpayments made through Autopay could still potentially remain undetected or unresolved. However, as part of the development of the new system, the generation of a potential duplicate payments report will be included.
- Three credit notes from 2016 remained on hold and had not been used to offset against other invoices.
- There was no process in place to log the number and reasons for returned remittances where payments had been made against incorrect addresses. While there had been issues with regards to the developing of a database for this purpose, this requirement is being included as a requirement as part of the development of the new system.

Bank Account Changes - Follow Up

Bank mandate fraud has been recognised nationally as a growing risk. We had previously undertaken a review into the processes in place within the Council when suppliers request a change in their bank account details. Our follow up review noted that two issues regarding the reconciliation of the number of changes made to the number of change forms received and the process for monitoring the access rights to ensure officers have the correct level of access to the system had yet to be fully addressed. We raised these with the relevant manager, and it was agreed that actions were being put in place to rectify this.

Day to Day Repairs

An audit of the Council's day to day repair and maintenance procedure was undertaken. Housing and Communities engage with a number of external contractors to undertake repairs and maintenance of the council's housing stock to supplement the in-house work force.

Our review identified that:

- Expenditure incurred with each individual contractor was not being monitored in order to ensure that spend was within the estimated annual tender figure and budget, and on a number of occasions this had been exceeded.
- No provision within the original tender documentation sent to each bidder indicating that expenditure may exceed the annual tender sums against which compliant bids may be evaluated against.
- Consideration should be given to revising the price/quality ratio from 60/40 to 80/20 to ensure value for money is achieved, as there are very specific requirements already included with the specifications.
- There was no formal monitoring to ensure that primary contractors were initially contacted for each piece of work, before secondary contractors and in some cases more use was being made of secondary contractors.

Facilities Management and Roofing Contracts

An audit was undertaken following issues regarding contractors undertaking emergency and reactive repairs through the Council's Framework Contract and processed through the Property Maintenance Account, in particular regarding roofing contracts.

We found a lack of adequate record keeping in order to evidence if emergency repairs were being undertaken within the priority timescales. As in our day to day repairs review, we also found the secondary contractors were being used on a more regular basis than primary contractors, without any clearly demonstrable evidence noting why.

School's Financial Value Standard (SFVS)

It is a statutory requirement for each maintained school to complete and submit a SFVS. The standard consists of a checklist and a dashboard. The checklist asks questions of governing bodies in six areas of resource management. It provides clarification for each question, examples of good practice, and details of further support available to assist schools in addressing specific issues. The dashboard shows how a school's data compares to thresholds on a range of statistics identified by the Department for Education (DfE) as indicators of good resource management and outcomes. It provides explanations of each of the indicators and helps schools to fill in their data and understand the results. The standard helps schools and local authorities meet basic standards for good financial health and resource management. A sample of submitted standards were reviewed to assess whether the information provided was adequate. No issues of significance were identified.

4 Covid-19 and Internal Audit

The UK Public Sector Internal Audit Standards Advisory Board produced guidance to support audit functions during Covid-19. This stated that all internal audit teams in organisations affected by Covid-19 would need to reassess their work plans and staff priorities. It also set out that for public sector internal auditors there was an additional responsibility as all staff in a public service body have a responsibility to work in the public interest. At a time of national crisis there is a need to act in the best interests of the health, safety and livelihoods of the

public as well as supporting the operational needs of the organisation. As a result very few internal audit teams would be operating under 'business as usual' conditions. At the very least they would be doing the majority of work remotely, and staff in many teams were likely to be taking on different roles to support their organisation and the public interest.

Here at the Council a part of the audit resources was temporarily redeployed to other areas of the Council's business in order to provide support in a number of critical areas including working on the track and trace system, the welfare hub and predominantly in helping to administer the wide range of business support grants provided by Central Government – including reviewing and assessing applications, monthly returns and introducing a pre and post payment assurance framework.

We also had an oversight role in the increased spending limits on the Council's procurement cards, the cash procedures including control over increased cash levels that were initially held by the Council (since reduced to pre-covid levels), safe security, applications for the Covid-19 Winter Grant and a move to a cashless system within the Council's markets.

5 Other activities undertaken by Audit Services

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

The Internal Audit annual plan for 2020/21 was submitted to the Audit and Risk Assurance Committee for approval. Work is now underway on preparation of the 2021/2 Plan.

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, and where appropriate these are reported separately to the committee.

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.