

# Internal Audit Progress Report February 2023



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 2022/23 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:

No Assurance	Limited	Reasonable	Substantial
Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

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

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

For school reviews, the overall opinion is based on the following criteria:

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

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 2022 and 28 February 2023

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			
<b>Reported previously:</b>							
Governance, Housing	High	-	4	4	8	8	Reasonable
Budgetary Control	High	-	2	1	3	3	Reasonable
Disabled Facility Grant	Medium	-	4	5	9	9	Limited
Prevention and Promotion Fund for Better Mental Health Grant 2021/22	N/A	-	-	-	-	-	N/A
Universal Drug Treatment 2021/22 Grant	N/A	-	-	-	-	-	N/A
Local Authority Test and Trace Contain Outbreak Management Fund Grant	N/A	-	-	-	-	-	N/A
Schools Financial Value Standard	N/A	-	-	-	-	-	N/A
Council Complaints follow up	N/A	-	1	1	2	2	N/A
Riverside Rents	Medium	-	4	-	4	4	Reasonable
Cash Handling	Medium	-	3	1	4	4	Reasonable
<b>School audits</b>							
Hamstead Infant School	Medium	-	1	3	4	4	Good
Oakham Primary School	Medium	-	-	6	6	6	Good

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Auditable Area	AAN rating	Recommendations				Total	Number accepted	Level of Assurance
		Fundamental	Significant	Merits attention				
Brickhouse Primary School	Medium	-	2	5	7	7	Satisfactory	
<b>Reported for the first time:</b>								
Riverside Leaseholders Follow up	Medium	-	-	2	2	2	N/A	
Accounts Receivable	High	-	1	-	1	1	Substantial	
Accounts Payable	High	-	3	-	3	3	Reasonable	
Treasury Management	High	-	-	1	1	1	Substantial	
Taylors Lane theft	N/A	-	12	-	12	12	Limited	
Main Accounting System	High	-	2	1	3	3	Reasonable	
Events Governance	Medium	-	4	-	4	4	Reasonable	
Housing Benefits	High	-	2	1	3	3	Reasonable	
National Non-Domestic Rates	High	-	-	-	-	-	Substantial	
Riverside, Planned Maintenance	Medium	-	2	1	3	3	Reasonable	
Adults Weight Management Grant	N/A	-	-	-	-	-	N/A	
Council, Housing Rents	High	-	1	-	1	1	Reasonable	
Income Management Follow up	Medium	-	-	-	-	-	N/A	
Council Tax	High	-	-	1	1	1	Substantial	
Events Payment Process (Contingency)	N/A	-	4	-	4	draft	Reasonable	
Boscobel Repairs/Voids	Medium	1	5	1	7	7	Limited	
Riverside method statements	N/A	-	-	-	-	-	N/A	

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Auditable Area	AAN rating	Recommendations			Total	Number accepted	Level of Assurance
		Fundamental	Significant	Merits attention			
<b>Schools</b>							
Sandwell Community School	Medium	-	2	4	6	6	Good
Orchard School	Medium	-	1	3	4	4	Good
Hargate Primary School	Medium	-	4	8	12	12	Satisfactory
Albert Pritchard Infant School	Medium	-	2	4	6	Draft	Satisfactory

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### Audits underway as at 28 February 2023

- |   |
|---|
| • Waste Services                        |
| • Disposal of Land, follow up           |
| • Procurement and Contract Compliance   |
| • Payroll                               |
| • Voluntary and Community Sector grants |

### 3 *Issues to bring to the committee's attention for the period October 2022 to February 2023*

#### *Events Governance*

We undertook an audit of the Events Governance Framework in order to provide assurance that governance activities within the Events Team were operating effectively and provided a direction on the services delivered. This included looking at a number of issues raised by Grant Thornton in their recent Value for Money Governance review. Following the review, a new events governance framework with a range of improvements were being put in place, including a specification for an online events portal for community event applications, and a criteria for borough and community level events developed to outline requirements for the Council and event organisers to ensure decisions are considered, and made at the earliest opportunity, and at the right level.

It was noted that work was ongoing in order to continue to make improvements to the governance structure within events and this review created an opportunity to consider whether further improvements were needed. Form our review we noted:

- The Event Planning Spreadsheet is a detailed plan that walks through each step of an event in order to enable timelines to be kept on track, and the event delivered in a successful manner. We noted that this was not always fully updated, with key fields on the spreadsheet not being completed.
- Invoices for one event had not been raised in a timely manner and an application for another event had not been fully completed with the appropriate narrative.

#### *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 one new area where action was required, and actions relating to two previous recommendations still required further action:

- We noted that five officers held access to the accounts payable module when their current role indicated that this was not required. This was flagged and their access was amended.
- While a spreadsheet was now being maintained in order to highlight 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.

- There was no mechanism in place to log the number and reasons for returned remittances where payments had been made against incorrect addresses. A spreadsheet was originally set up, but the links had ceased to work and officers no longer updated it.

### *Treasury Management*

Treasury Management is a key financial system and a vehicle to actively manage and monitor banking transactions to ensure cash is available to pay for debts as they fall due, while minimising borrowing costs. Due to this it is important for the Council to ensure sufficient funds are available to deliver the day to day operations, ensuring an acceptable balance is achieved between security, liquidity and return for any investments held.

The Council has a Treasury Management Strategy, and this is approved by the Council each year and the policy used to manage the daily cash flow through short-term borrowings and investments alongside a long-term strategy for the management of the Council's debt portfolio. No issues of significance were identified, and substantial assurance was given.

### *Main Accounting System*

The Financial Management System or Main Accounting System is the fundamental accounting system used by the Council and resides on the General Ledger module of the Oracle Financial system. It records and consolidates all the financial transactions carried out by the Council. As part of the review we assessed procedures and controls within the main accounting system and also followed up the previous year's recommendations. We noted that two of our recommendations required further action, relating to the timely completion of reconciliations, and the contracts register on the intranet holding expired contracts.

### *Housing Benefits*

Housing Benefits are a means tested benefit intended to help meet housing costs for rented accommodation. The Council reclaims most of the Housing Benefit they pay out from the Department for Works and Pensions, by submitting subsidy claims which are certified by the appointed external auditor.

As part of our review, we followed up our previous recommendations. We noted that while some work had taken place, both had areas that remained outstanding:

- No clear audit trail of calculations undertaken for the over £1,500 checks being retained.
- Manual adjustments, not always reviewed and signed as correct by the Lead Officer

### *National Non-Domestic Rates*

NNDR is the charge given on most non-domestic properties such as shops, offices, pubs, warehouses and factories etc. The rate is calculated by the properties rateable value, which is an open market rental value calculated by the Valuation Office Agency. A number of non-domestic properties are exempt or entitled to claim business rate relief and it is the councils' responsibility to ensure each non-domestic property is charged the appropriate rate and that all money is collected. The overall objective was to provide assurance that the systems of control in respect of NNDR are adequate and are being consistently applied. Substantial assurance was given.



### *Taylors Lane theft*

In November 2022 a wood-chipper was stolen from the Council's Taylors Lane depot. Following which a working group (including internal audit presence) was established in order to review the security arrangements at the depot and other Council sites, alongside consideration of wider security standards. It has been recognised that a number of controls and security processes were not fully operational at the time of the incident. Both ourselves through our report, and the working group made a number of recommendations in order to further safeguard council assets across the Council's estate, and these have been, or are being put in place.

### *Riverside Leaseholders, Follow up*

Riverside manage a proportion of the Councils housing stock under a PFI agreement. As part of the agreement Riverside are responsible for the management of leasehold properties who undertake the management and maintenance on certain estates. In November 2021, we issued a report with four significant recommendations where improvements could be made, including:

- Clearly demonstrating that an advisory service was being provided.
- Consulting with leaseholders where planned work may impact on their property.
- Reviewing the charges to leaseholders to ensure they were a fair representation of the cost of the work.
- That the unitary charge be adjusted to omit the need to provide a cash desk facility if this was no longer provided.

Our latest review followed up our previous recommendations in order to ensure that sufficient action had been undertaken within the agreed timescales. Three of the recommendations had been implemented, but there was still scope for clearer consulting with leaseholders regarding planned work.

### *Riverside, Planed Maintenance*

An annual programme for planned maintenance works is agreed between the Council and Riverside before the start of each new financial year to ensure the properties facilities etc meet the defined requirements in the agreed terms and conditions of the contract. The planned maintenance as well as the day to day repairs are undertaken by a contractor who were awarded the appropriate contracts following a competitive tendering exercise.

The nature of the works varies on an annual basis, but within the planned programme for 2022/23, the review included the replacement of kitchen units, replacement of electrical systems including new consumer units, replacement of gas central heating boilers and ancillary controls, roofing works and the replacement of existing extractor fans.

The completed work, where possible, is jointly inspected by the consultant surveyor, Riverside and the contractor. If the work has been carried out to a satisfactory standard a completion certificate is issued to Riverside. We identified two issues where improvements could be made, arising from the following:

- Three instances were found where work needed rectification on the properties visited from the original planned work, and one where a re-wire had not been undertaken at the tenant's request.

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- Seven instances were found where extractor fans had not been installed either because the tenant was not available, or the work had been missed. The installation of extractor fans are important in removing moist air and in preventing the build-up of damp and mould.

Riverside have agreed to attend each of the properties identified in order to complete the works and ensure that any outstanding issues identified are cleared.

### *Housing Rents, Council*

Following previous audit reviews, improvements continue to be made within the Rent Accounting team. Our latest review noted that only one recommendation remained outstanding. This related to social rents that are set using a government formula which calculates a 'formula rent' for each property. From the sample of ten properties we reviewed, two properties although uplifted correctly, differed from the social formula rent that could be charged for both properties.

With the Council having a housing stock of over 27,000 properties, it is important that a rolling programme of review takes place in order to establish how many other properties may not be being charged the correct rent so that they can be remedied.

### *Boscobel TMO repairs/voids*

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. Boscobel TMO has 115 properties for which it is responsible.

A review was undertaken to assess the adequacy of the system for the control and inspection of work and the maintenance and flow of progress information. We identified a number of issues where improvements could be made. We also noted that an issue raised in a previous report remained outstanding: Our observations included:

- GDPR requirements were not included within the contract (Management Agreement) and there was a risk of infringement of statutory regulations, not only for the TMO but also for the Council. A lack of detailed procedures, and issues in providing repair and void work to contractors outside of the Council, especially as there had been no updates to the management agreement since the TMO became fully operational in 2010. As such many of our recommendations were due to a lack of awareness of current procurement rules and legislation. With both officers and Board members at the TMO having a general lack of awareness with regards to contracts.
- Quotes were not being requested for work undertaken, although as highlighted above a contract would need to be put in place, or a business case provided to justify the approach to procuring repair/void services in the future, and within it provide evidence of how it will not contravene the appropriate Regulations.
- Work undertaken by the Council and/or external contractor was not being signed off when the work was completed.
- When the need for additional work was identified during the undertaking of a repair/void, prior approval to continue should be sought in the guise of completing and signing a variation form. We understand that authorisation would normally be given

verbally, but no audit trail of such approval, or reason for the variation was being retained either on file or on the system.

- Following completion of a repair, a post inspection form should be completed and signed by the contractor and Boscobel TMO to evidence that both are satisfied with the work completed. There were no records of a post inspection form being completed.
- If the cost of void repair works is over £2,500, the TMO will invoice the Council for the difference. In the sample of five such repairs that we reviewed, three were above this threshold. By using a third-party contractor, Sandwell's void process is not followed and as such a visit by the Council's Surveyor/Voids Inspector is not triggered to visit the properties. It is therefore unclear whether the work undertaken offered value for money for either the TMO or Council.
- The TMO had not undertaken any checks on the electrical contractor's credentials, or their ability to undertake electrical work.

#### *4 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 on an annual, basis.

##### *Internal Audit Plan*

The Internal Audit annual plan for 2022/23 was submitted to the Audit and Risk Assurance Committee for approval.

##### *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 potential fraud and where appropriate these are reported separately to the committee.

##### *Annual Governance Statement*

We play a key role in the preparation of the Annual Governance Statement which forms part of the annual published Statement of Accounts.

##### *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.

##### *Wider Client base*

The Council's internal auditors also provide the internal audit service to Sandwell Children's Trust, Sandwell Leisure Trust and the West Midlands Fire Service, and reports directly to these organisations audit committee, or equivalent, as appropriate. Through a shared service arrangement, it also currently provides the Head of Audit role to the City of Wolverhampton Council.