

Audit Committee – 22 July 2019

Internal Audit Annual Report and Opinion 2018/19

Summary of the Report

To present Internal Audit's Annual Report and Opinion on the council's Internal Control Environment 2018/19 to the Audit Committee.

Background Papers

Internal Audit reports.

Recommendations

Audit Committee are recommended to note the contents of this report.

Resource and Legal Considerations

The Accounts and Audit Regulations 2015 came into effect on 1st April 2015 and require councils to undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards (PSIAS) or guidance. The PSIAS requires that Internal Audit provide an annual report to the Audit Committee timed to support the Annual Governance Statement. This report meets that requirement.

Governance Issues

The Audit Committee's activities include ensuring that an effective internal control environment is maintained. This report supports the Audit Committee in exercising that role.

Citizen Impact

This report reinforces the protection to the council and its officers in respect of the robustness of the internal control environment and is an integral part of the assurance provided to citizens and other stakeholders on the security of the Council's activities and operations.

Performance and Risk Management Issues

Part of Internal Audit's role is to provide assurance in the council's performance and risk management arrangements. Internal Audit's programme of work is risk assessed to ensure areas most at risk are examined as a priority.

Equality Implications

Internal Audit has full regard to equalities both within the internal audit service and in the services / activities under review.

Consultation

The annual work plan 2018/19 was consulted upon before its final endorsement by the Audit Committee, with executive directors, senior managers and the Chief Finance Officer. All audit reports are subject to an appropriate level of consultation before being finalised.



Vicky Buckley – Head of Finance
9 July 2019

Author:

Sarah Knowles - Audit Manager (Mazars) ☎ 07917 084604

✉ Sarah.Knowles@mazars.co.uk



Internal Audit Annual Report

For the year ended 31 March 2019

Presented to the Audit Committee 22 July 2019

Contents

- 01 Introduction
- 02 Internal audit work undertaken in 2018/19
- 03 Annual Opinion
- 04 Benchmarking Performance
- 05 Performance of Internal Audit

Appendices

- A1 Summary of Internal Audit Work undertaken in 2018/19
- A2 Statement of Responsibility

In the event of any questions arising from this report please contact Sarah Knowles , Senior Manager, sarah.knowles@mazars.co.uk or Mark Towler, Director, mark.towler@mazars.co.uk

Status of our reports

This report ("Report") was prepared by Mazars LLP at the request of Walsall Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of Walsall Council and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in Appendix A2 of this report for further information about responsibilities, limitations and confidentiality.

01 Introduction

Background

Following a competitive tender Mazars LLP were appointed to provide an internal audit service to the Council from 1 April 2016. This Annual Report covers the work we have undertaken for the year ended 31 March 2019, and incorporates our audit opinion.

Scope and purpose of internal audit

The Accounts and Audit Regulations 2015 came into effect on 1 April 2015 and require councils to undertake an effective Internal Audit to evaluate the effectiveness of their risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance.

This opinion forms part of the framework of assurances that is received by the Council and should be used to help inform the Annual Governance Statement. Internal Audit also has an independent and objective consultancy role to help line managers improve risk management, governance and control.

Our professional responsibilities as internal auditors for the year ended 31 March 2019 are set out within Public Sector Internal Audit Standards (PSIAS) produced by the Internal Audit Standards Advisory Board.

This report covers the internal audit activity for the 1st April 2018 to 31st March 2019 period, and summarises matters which came to our attention during the year. Such matters have been included within our detailed reports to the Audit Committee during the course of the year.

Acknowledgments

We are grateful to the Executive Directors, Head of Finance, and other staff throughout the Council for the assistance provided to us during the year.

02 Internal Audit Work undertaken in 2018/19

Our Internal Audit Plan for 2018/19 was considered and approved by the Audit Committee at its meeting on 19 February 2018. The Plan was for a total of 796 days including 30 days Follow Up, 75 days Management and planning and 70 days contingency.

During the course of the year a number of changes were made to the planned programme of work to reflect changes in circumstances within the Council.

The audit findings in respect of each review, together with our recommendations for action and the management response were set out in our detailed reports. A summary of the reports we have issued is included at *Appendix A1*. The appendix also describes the levels of assurance we have used in assessing the control environment and effectiveness of controls and the classification of our recommendations.

A summary of the Priority 1 recommendations made during the course of the year is included at *Appendix A2*.

03 Annual Opinion

Scope of the Internal Audit Opinion

In giving our annual audit opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the Council is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

In arriving at our opinion, we have taken the following matters into account:

- The results of all audits undertaken during the year ended 31 March 2019;
- Whether or not any Priority 1 or Priority 2 recommendations have not been accepted by management and the consequent risks;
- The effects of any material changes in the organisation's objectives or activities;
- Matters arising from previous reports to the Audit Committee;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation; and
- What proportion of the organisation's internal audit needs have been covered to date.

Internal Audit Opinion

On the basis of our audit work, our opinion on the Council's framework of governance, risk management and internal control is Substantial in its overall adequacy and effectiveness. Certain weaknesses and exceptions were highlighted by our audit work, 20 of which were fundamental in nature. These matters have been discussed with management, to whom we have made a number of recommendations. All of these have been, or are in the process of being addressed, as detailed in our individual reports.

In reaching this opinion the following factors were taken into particular consideration:

Corporate Governance and Risk Management

Governance arrangements have been considered and reported within the other reviews undertaken through the year and controls assurance work has been carried out to inform the Council's Annual Governance Statement. Work to embed a new approach to risk management in the Council has been underway since December 2017 with regular progress reports to both CMT and the Audit Committee. There has been a strong commitment at Member and officer level to ensure the risk management framework continues to evolve and strengthen. There is a risk champion in place for each directorate who is committed to supporting robust risk management activity. In January 2019, the Audit Committee approved the Risk Management Strategy for 2019/20 which contains an action plan to further embed robust risk management activity across the organisation.

Internal Control

Of the 53 audits undertaken in the year where we provided a formal assurance level, eight were given a 'Good' level of assurance, 30 a 'Substantial' level of assurance and 15 a 'Limited' level of assurance. No audits were given 'No' level of assurance.

During the year, we have made 20 'Priority 1' recommendations and these are summarised in *Appendix A2* of this report. 196 recommendations categorised as 'Priority 2' were also made.

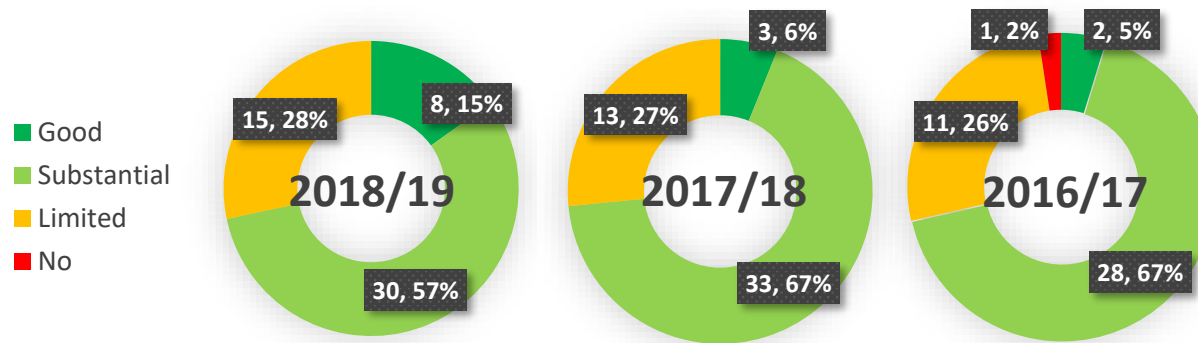
In respect of follow up of recommendations, internal audit has an established process for tracking the implementation of recommendations raised and enabling Management to report on their status to each Audit Committee meeting. During the year, we reviewed the implementation of recommendations as they fell due and confirmed their implementation status.

All recommendations made during the year were accepted by Management.

04 Benchmarking

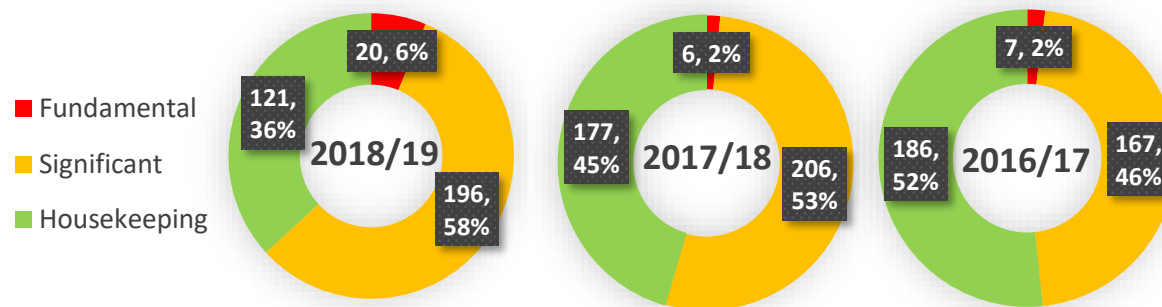
This section compares the Assurance Levels (where given) and categorisation of recommendations made at the Council.

Comparison of Assurance Levels (where given)



Of the 53 audits where an assurance level has been provided in 2018/19, 'Good' assurance has been provided in eight cases, 'Substantial' assurance has been provided in 30 cases, 15 audits provided 'Limited' assurance.

Comparison of Recommendations by categorisation



In 2018/19, a total of 337 recommendations have been made. 20 of these were categorised as Priority 1. 196 recommendations were categorised as Priority 2 and 121 categorised as 'Priority 3'.

05 Performance of Internal Audit

Compliance with professional standards

We employed a risk-based approach to determining the audit needs of the Commission at the start of the year and use a risk-based methodology in planning and conducting our audit assignments. Our work has been performed in accordance with PSIAS.

Conflicts of Interest

There have been no instances during the year which have impacted on our independence and/or lead us to declare any interest.

Performance of Internal Audit

Internal Audit Quality Assurance

In order to ensure the quality of the work we perform, we have a programme of quality measures which includes:

- Supervision of staff conducting audit work;
- Review of files of working papers and reports by managers and directors;
- The use of satisfaction surveys for each completed assignment.
- Annual appraisal of audit staff and the development of personal development and training plans;
- Sector specific training for staff involved in the sector;
- Regular meetings of our Sector Strategy Groups, which issues technical guidance to inform staff and provide instruction with regard to technical issues; and
- The maintenance of the firm's Internal Audit Manual.

Performance Measures

We have completed our audit work in accordance with the agreed Plan and each of our final reports has been reported to the Audit Committee.

Quarterly monitoring against KPIs set out in our contract is reported to the Head of Finance and the Executive Director – Resources and Transformation.

Satisfaction surveys have been issued to the Council for each audit together with the final report. 19 surveys have been returned to date, for which the Council provided 'very good' ratings in 15 cases, and 'good' ratings in 4 cases.

Monthly meetings with the Head of Finance, and quarterly meetings with the Executive Director of Resources and Transformation have taken place in order to monitor progress against plan.

A1 Summary of internal audit work undertaken in 2018/19

The following reviews were undertaken during the 2018/19 audit year:

| Auditable Area | Level of Assurance (evaluation / testing) | Days | | Recommendations | | | | |
|---|--|--------|--------|-----------------------------|-----------------------------|------------------------------|-------|----------------------------|
| | | Budget | Actual | Priority 1 (Fundamental) | Priority 2 (Significant) | Priority 3 (Housekeeping) | Total | Total agreed by Management |
| Treasury Management, Cash & Bank | Good / Good | 10 | 10 | - | - | 2 | 2 | 2 |
| Budgetary Control | Good / Good | 10 | 10 | - | - | 1 | 1 | 1 |
| Lichfield Street Hub Project | Good / Good | 10 | 10 | - | - | - | - | - |
| Benefits Realisation | Good / Good | 15 | 15 | - | - | 3 | 3 | 3 |
| One Source System Phase 1 | Good / Good | 15 | 15 | - | - | - | - | - |
| Accounts Receivable | Good / Substantial | 10 | 10 | - | 2 | 1 | 3 | 3 |
| Accounts Payable | Good / Substantial | 10 | 10 | - | 1 | 1 | 2 | 2 |
| Main Accounting | Good / Substantial | 10 | 10 | - | 1 | - | 1 | 1 |
| Council Tax / NNDR | Substantial / Substantial | 18 | 18 | - | 3 | 2 | 5 | 5 |
| Housing Benefit & Local Council Tax Support | Substantial / Substantial | 13 | 13 | - | 1 | 6 | 7 | 7 |
| Catering Contracts | Substantial / Substantial | 5 | 5 | - | 2 | - | 2 | 2 |
| Planning | Substantial / Substantial | 9 | 9 | - | 4 | 5 | 9 | 9 |

| Auditable Area | Level of Assurance (evaluation / testing) | Days | | Recommendations | | | | |
|---|--|--------|--------|-----------------------------|-----------------------------|------------------------------|-------|----------------------------|
| | | Budget | Actual | Priority 1 (Fundamental) | Priority 2 (Significant) | Priority 3 (Housekeeping) | Total | Total agreed by Management |
| Troubled Families (September 2018) | Substantial / Substantial | 5 | 5 | - | 2 | 1 | 3 | 3 |
| Troubled Families (March 2019) | Substantial / Substantial | 5 | 5 | - | 1 | - | 1 | 1 |
| Home to School Transport | Substantial / Substantial | 10 | 10 | - | 4 | 3 | 7 | 7 |
| GDPR | Substantial / n/a | 16 | 16 | - | 3 | 1 | 4 | 4 |
| Corporate Review of Agency Staff | Substantial / Substantial | 12 | 12 | - | 2 | 1 | 3 | 3 |
| Payroll & Pensions Administration | Substantial / Substantial | 10 | 10 | - | 5 | 2 | 7 | 7 |
| Communications and Staff Engagement | Substantial / Substantial | 10 | 10 | - | 2 | 1 | 3 | 3 |
| Integrated Health and Social Care | Substantial / Substantial | 15 | 15 | - | 1 | 1 | 2 | 2 |
| Workforce Planning | Substantial / Substantial | 13 | 13 | - | 2 | 2 | 4 | 4 |
| Transition to Education Health and Care Plans (draft – issued October 2018) | Substantial / Substantial | 10 | 10 | - | 3 | 2 | 5 | 5 |
| IR35 | Substantial / Limited | 7 | 7 | - | 6 | 3 | 9 | 9 |
| Money, Home, Job Emergency Payments | Substantial / Limited | 7 | 7 | - | 5 | - | 5 | 5 |
| CRC Energy Efficiency Scheme | Substantial / Limited | 10 | 10 | 1 | 2 | - | 3 | 3 |

| Auditable Area | Level of Assurance (evaluation / testing) | Days | | Recommendations | | | | |
|---|--|------------|------------|-----------------------------|-----------------------------|------------------------------|-------------|--------------------------------------|
| | | Budget | Actual | Priority 1 (Fundamental) | Priority 2 (Significant) | Priority 3 (Housekeeping) | Total | Total agreed by Management |
| Performance Management Framework | Substantial / Limited | 15 | 15 | - | 5 | - | 5 | 5 |
| Purchase Cards (Money, Home, Job) | Limited / Substantial | 10 | 10 | 1 | 2 | 1 | 4 | 4 |
| Schools Governance | Limited / Substantial | 8 | 8 | 1 | 4 | 2 | 7 | 7 |
| Commissioning of Placements (draft – issued April 2019) | Limited / Substantial | 13 | 15 | - | 8 | 1 | 9 | 9 |
| Licensing | Limited / Limited | 8 | 8 | 2 | 5 | 4 | 11 | 11 |
| Residential and Nursing Care | Limited / Limited | 15 | 15 | 4 | 9 | 1 | 14 | 14 |
| ICT Business Continuity | Limited / Limited | 15 | 15 | 1 | 2 | 1 | 4 | 4 |
| Procurement | Limited / Limited | 13 | 15 | 4 | 7 | - | 11 | 11 |
| Local Growth Fund | n/a | 7 | 7 | - | - | - | - | - |
| Follow up of Information Commissioners Office recommendations relating to Subject Access Requests | n/a | 5 | 5 | - | - | - | - | - |
| The Jane Lane School (Properly Assigned Sums) (draft – issued February 2019) | n/a | 10 | 10 | - | 6 | - | 6 | No response received from the school |
| Totals | | 384 | 388 | 14 | 100 | 48 | 162 | 156 |
| % | | | | 9% | 61% | 30% | 100% | |

The following school reviews were undertaken during the 2018/19 audit year:

| Auditable Area | Level of Assurance (evaluation / testing) | Days | | Recommendations | | | | |
|---|---|--------|--------|--------------------------|--------------------------|---------------------------|-------|----------------------------|
| | | Budget | Actual | Priority 1 (Fundamental) | Priority 2 (Significant) | Priority 3 (Housekeeping) | Total | Total agreed by Management |
| Pheasey Park Farm Primary School | Good / Good | 5 | 5 | - | 1 | 2 | 3 | 3 |
| Rushall Primary School | Good / Good | 5 | 5 | - | - | 2 | 2 | 2 |
| Castle Business & Enterprise College | Good / Good | 5 | 5 | - | - | 1 | 1 | 1 |
| Blackwood Primary School | Good / Substantial | 5 | 5 | - | 2 | 1 | 3 | 3 |
| Watling Street Primary School | Good / Substantial | 5 | 5 | - | 1 | 2 | 3 | 3 |
| Bentley Federation (Bentley West / King Charles) School | Substantial / Substantial | 10 | 10 | - | 4 | 6 | 10 | 10 |
| Butts Primary School | Substantial / Substantial | 5 | 5 | - | 3 | 6 | 9 | 9 |
| Cooper and Jordan Primary School | Substantial / Substantial | 5 | 5 | - | 3 | 3 | 6 | 6 |
| Delves Junior School | Substantial / Substantial | 5 | 5 | - | 3 | 2 | 5 | 5 |
| Greenfield Primary School | Substantial / Substantial | 5 | 5 | - | 5 | 4 | 9 | 9 |
| Lower Farm Primary School | Substantial / Substantial | 5 | 5 | - | 5 | 1 | 6 | 6 |
| Palfrey Infants School | Substantial / Substantial | 5 | 5 | - | 4 | 2 | 6 | 6 |

| Auditable Area | Level of Assurance (evaluation / testing) | Days | | Recommendations | | | | |
|-------------------------------|--|------------|------------|-----------------------------|-----------------------------|------------------------------|-------------|----------------------------------|
| | | Budget | Actual | Priority 1 (Fundamental) | Priority 2 (Significant) | Priority 3 (Housekeeping) | Total | Total agreed by Management |
| Palfrey Junior School | Substantial / Substantial | 5 | 5 | - | 3 | 3 | 6 | 6 |
| Pelsall Village Junior School | Substantial / Substantial | 5 | 5 | - | 3 | 4 | 7 | 7 |
| Shepwell School | Substantial / Substantial | 5 | 5 | - | 4 | 4 | 8 | 8 |
| St Johns CE Primary School | Substantial / Substantial | 5 | 5 | - | 3 | 3 | 6 | 6 |
| Busill Jones Primary School | Limited / Limited | 5 | 5 | 1 | 6 | 6 | 13 | 13 |
| Alumwell Junior School | Limited / Limited | 5 | 5 | 1 | 9 | 7 | 17 | 17 |
| New Leaf School | Limited / Limited | 5 | 5 | 1 | 12 | 5 | 18 | 18 |
| Millfield Primary School | Limited / Limited | 5 | 5 | - | 11 | 6 | 17 | 17 |
| The Jane Lane School | n/a | 6 | 6 | 3 | 14 | 3 | 20 | 20 |
| Totals | | 111 | 111 | 6 | 96 | 73 | 175 | |
| % | | | | 3% | 55% | 42% | 100% | |

We use the following levels of assurance and recommendation classifications within our audit reports:

| Assurance Level | Adequacy of system design | Effectiveness of operating controls |
|------------------------------|--|--|
| Good Assurance | There is a sound system of internal control designed to achieve the system objectives. | The controls are being consistently applied, or any weaknesses identified do not affect key controls and are unlikely to impair the achievement of the objectives of the system. |
| Substantial Assurance | Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk. | While controls are generally operating effectively, there are weaknesses which put some of the system objectives at risk. |
| Limited Assurance | Weaknesses in the system of internal control design are such as to put the system objectives at risk. | The level of non-compliance puts the system objectives at risk. |
| No Assurance | Control is generally weak leaving the system open to significant error or abuse. | Significant non-compliance with basic controls leaves the system open to error or abuse. |

| Recommendation Grading | Definition |
|----------------------------------|---|
| Priority 1 (Fundamental) | Recommendations which are fundamental to the system and upon which the organisation should take immediate action. Major issues for the attention of senior management and the Audit Committee |
| Priority 2 (Significant) | Recommendations which, although not fundamental to the system, provide scope for improvements to be made. Recommendations for local management action in their areas of responsibility. |
| Priority 3 (Housekeeping) | Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed. Detailed problems of a minor nature resolved on site through discussions with local management. |

A2 Statement of Responsibility

We take responsibility to Walsall Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom. Registered in England and Wales No 0C308299.