

Audit Committee – 26 June 2017

Internal Audit Annual Report and Opinion 2016/17

Summary of the Report

To present Internal Audit's Annual Report and Opinion on the Council's Internal Control Environment 2016/17 to the Audit Committee.

Background Papers

Internal Audit reports.

Recommendations

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



James T. Walsh – Chief Finance Officer

15 June 2017

Resource and Legal Considerations

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 its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards 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 2016/17 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.

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Internal Audit Annual Report and Opinion

For the year ended: 31 March 2017

Presented to Audit Committee meeting of: 26 June 2017

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In the event of any questions arising from this report please contact Sarah Knowles , Senior Manager, sarah.knowles@mazars.co.uk or Narinder Sandher, Director, narinder.sandher@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 A1 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 2017, 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 2017 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 2016 to 31st March 2017 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, Chief Finance Officer, Head of Finance, and other staff throughout the Council for the assistance provided to us during the year.

02 Internal Audit Work undertaken in 2016/17

Our Internal Audit Plan for 2016/17 was considered and approved by the Audit Committee at its meeting on 22 February 2016. The Plan was for a total of 850 days including 30 days Follow Up, and 85 days Management and planning.

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 as a separate agenda item.

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 2017;
- Whether 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.

Annual Opinion

On the basis of our audit work, we consider that the Council's governance, risk management and internal control arrangements are generally adequate and effective. Certain weaknesses and exceptions were highlighted by our audit work, eight 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 was completed to inform the Council's Annual Governance Statement. We have carried out Risk Management sessions for the Corporate Management Team in order to refresh the Corporate Risk Register, and have provided Risk Management training for the

managers within ICT.

Internal Control

Of the 47 audits undertaken in the year where we provided a formal assurance level, two were given a 'Good' level of assurance, 30 a 'Substantial' level of assurance, 14 a 'Limited' level of assurance and one was given a 'No' assurance level.

During the year, we have made 8 'Priority 1' recommendations and these are summarised in *Appendix A2* of this report. 206 recommendations categorised as 'Priority 2' were also made.

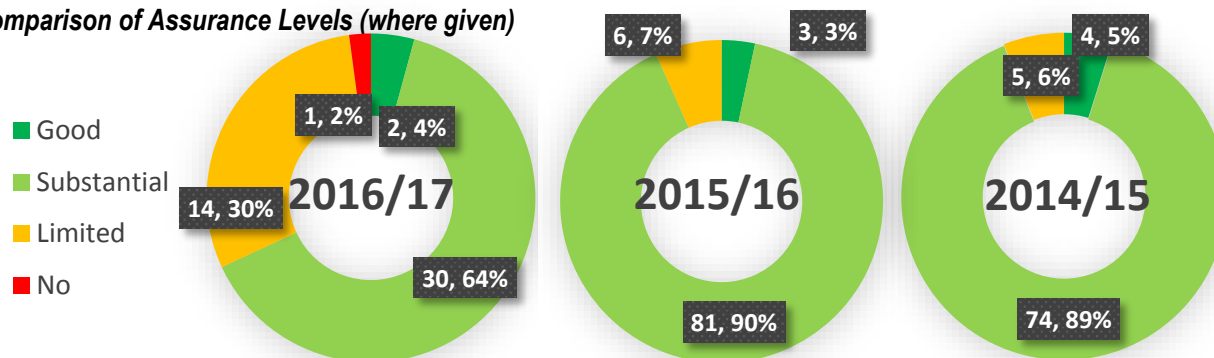
In respect of follow up of recommendations, internal audit has an established process for tracking the implementation of recommendations raised and enabling Management to report on their status to each Audit Committee meeting. During the year, we reviewed the implementation of recommendations as they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

All recommendations made during the year were accepted by Management.

04 Benchmarking

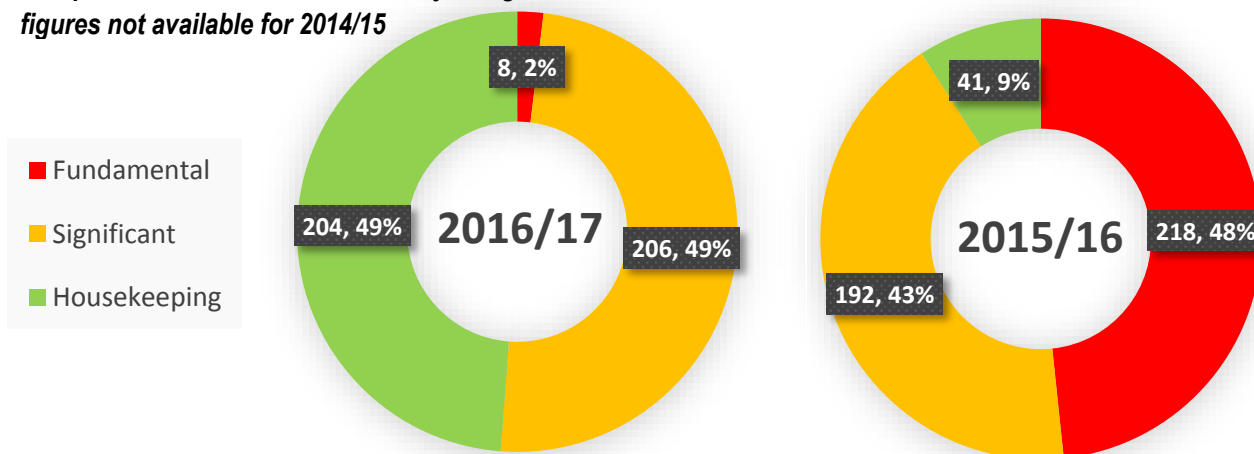
This section compares the Assurance Levels (where given) and categorisation of recommendations made at the Council.

Comparison of Assurance Levels (where given)



Of the 47 audits where an assurance level has been provided in 2016/17, 'Good' assurance has been provided in two cases, 'Substantial' assurance has been provided in 30 cases, 14 audits provided 'Limited' assurance. The one audit with 'No Assurance' related to Community Alarms.

Comparison of Recommendations by categorisation – figures not available for 2014/15



In 2016/17, a total of 418 recommendations have been made. 8 of these were categorised as Priority 1. 206 recommendations were categorised as Priority 2 and 204 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 Council at the start of the year and used a risk based methodology in planning and conducting our audit assignments. Our work has been performed in accordance with the requirements of PSIAS and the Global Institute of Internal Auditors International Professional Practices Framework (IPPF).

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 partners;
- 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.

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 Measures

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

Satisfaction surveys have been issued to the Council for each audit together with the final report. Of the 10 completed surveys received, eight surveys have been returned as "very good" and two surveys have been returned as "good".

Regular progress meetings have been held with the Head of Finance and Chief Finance Officer. No major issues have been raised.

A1 Summary of internal audit work undertaken in 2016/17

The following reviews were undertaken during the 2016/17 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
Main Accounting	Good / Good	10	10	-	-	1	1	1
Treasury Management, Cash & Bank	Substantial / Substantial	10	10	-	2	1	3	3
Accounts Receivable	Substantial / Substantial	10	10	-	2	-	2	2
Accounts Payable	Good / Good	10	10	-	-	2	2	2
Budgetary Control (Draft)	Substantial / Substantial	10	10	-	1	1	2	2
Council Tax / NNDR	Substantial / Substantial	30	30	-	4	3	7	7
Housing Benefit & Local Council Tax Support (Draft)	Substantial / Substantial	20	20	-	4	2	6	6
Payroll & Pensions Administration	Substantial / Substantial	15	15	-	5	1	6	6
Asset Management (Draft)	Limited / Limited	10	10	-	9	1	10	10
Homelessness	Substantial / Substantial	15	15	-	3	2	5	5
Human Resources	Substantial / Substantial	15	15	-	5	5	10	10
Active Living Construction Project Management (Draft)	Substantial / Limited	10	10	1	3	0	4	4

Code of Conduct for Operational PFI/PPP Contracts	Good / Substantial	10	10	-	1	-	1	1
Town & District Centres Markets	Limited / Limited	10	10	1	9	3	13	13
CRC Energy Efficiency Scheme	Substantial / Limited	10	10	-	6	6	12	12
Local Growth Fund	n/a	5	5	-	-	-	-	-
Troubled Families (September 2016)	Substantial / Good	5	5	-	-	-	-	-
Troubled Families (January 2017)	Limited / Substantial	5	5	1	3	1	5	5
Adoption & Fostering	Good / Substantial	10	10	-	2	2	4	4
Residential Care (Draft)	Substantial / Limited	15	15	-	7	5	12	12
Schools Improvement Service (Draft)	Substantial / Substantial	10	10	-	1	-	1	1
Pheasey Park Fark Farm Children's Centre	Substantial / Limited	5	5	-	12	3	15	15
Deputyships & Appointeeships	Limited / Limited	10	10	1	13	4	18	18
Support Planning, Resource Allocation, Personal Budgets and Direct Payments (Draft)	Substantial / Limited	25	25	-	8	4	12	12
Community Alarms & Telecare Service	No / Limited	10	10	3	12	5	20	20
Community Capacity Grant	n/a	5	5	-	-	-	-	-
Facilities Management	Limited / Limited	15	15	-	13	2	15	15

Cyber Security (IT)	Limited / Limited	15	15	-	6	2	8	8
IT Business Continuity Follow Up (draft)	Limited Progress	5	5	1	1	-	2	2
Procurement (WIP)		25	25					
Contract Management (WIP)		25	25					
Totals		385	385	8	132	56	196	196
%				4%	67%	29%	100%	100%

The following school reviews were undertaken during the 2016/17 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
County Bridge Primary School	Substantial / Substantial	5	5	-	4	10	14	14
Pool Hayes Primary School	Substantial / Substantial	5	5	-	4	12	16	16
Whitehall Infants School	Substantial / Substantial	5	5	-	6	9	15	15
Elmwood School	Good / Substantial	5	5	-	1	3	4	4
Delves Infants School	Good / Substantial	5	5	-	2	4	6	6
St Joseph's Catholic Primary School	Substantial / Substantial	5	5	-	3	2	5	5
St Anne's Catholic Primary School	Substantial / Substantial	5	5	-	5	9	16	16
St Francis Catholic Primary School	Good / Substantial	5	5	-	-	1	1	1
St Peter's Catholic Primary School	Substantial / Substantial	5	5	-	4	7	11	11
Rowley View Nursery	Substantial / Good	5	5	-	-	4	4	4
Whetsone Field Primary School	Substantial / Substantial	5	5	-	5	10	15	15
Castlefort Primary School	Substantial / Substantial	5	5	-	1	7	8	8
Little Bloxwich CE Primary Report	Substantial / Limited	5	5	-	8	8	16	16

St Francis of Assisi Catholic Technology College	Good / Substantial	5	5	-	3	7	10	10
Abbey Primary School	Limited / Substantial	5	5	-	7	9	16	16
Short Heath Federation	Substantial / Substantial	15	15	-	5	12	17	17
Blue Coat Federation	Substantial / Substantial	10	10	-	4	6	10	10
St Bernadette's Catholic Primary School	Substantial / Substantial	5	5	-	5	14	19	19
Brownhills West Primary School	Substantial / Substantial	5	5	-	3	8	11	11
St Mary's of the Angels Primary School	Substantial / Substantial	5	5	-	4	6	10	10
Salisbury Primary School – Controls Testing	n/a	6	6	n/a	n/a	n/a	n/a	n/a
Totals		121	121	0	74	148	222	222
%					33%	67%	100%	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 the Gambling Commission 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.

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