



WALSALL COUNCIL

INTERNAL AUDIT PROGRESS REPORT

Audit Committee – 5th September 2016

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Introduction

This progress report to the Audit Committee covers the work carried out during the period April 1st 2016 to 31st July 2016 by Mazars Public Sector Internal Audit Limited.

Appendix 1 outlines progress to date against the 2016/17 Internal Audit Plan.

Background

The purpose of the internal audit plan is to identify the work required to achieve a reasonable level of assurance to be provided by Mazars LLP in compliance with the Code of Practice for Internal Audit.

The fundamental role of Internal Audit is to provide senior management and Members with independent assurance on the adequacy, effectiveness and efficiency of the system of internal control, and to report major weaknesses together with recommendations for improvement. This role is fulfilled by carrying out appropriate audit work, normally in accordance with a strategic plan and an annual operational plan, as approved by the Chief Finance Officer and the Audit Committee.

As internal audit is a major source of assurance that the Council is effectively managing the principal risks to the achievement of its corporate objectives, a key rationale for the development of the internal audit plan was the Council's own Corporate and Directorate Risk Registers and how the internal audit plan can provide this assurance.

Progress to Date

Audit fieldwork on the 2016/17 Internal Audit Plan has progressed well and audit coverage has been in line with the Plan, as shown in Appendix 1.

We have issued the following Final reports.

- County Bridge Primary School (Evaluation assurance: **Substantial**. Testing assurance: **Substantial**)
- Pool Hayes Primary School (Evaluation assurance: **Substantial**. Testing assurance: **Substantial**)
- Whitehall Nursery & Infant School (Evaluation assurance: **Substantial**. Testing assurance: **Substantial**)
- Elmwood School (Evaluation assurance: **Good**. Testing assurance: **Substantial**)

We have also reviewed and provided assurance that the conditions attached to the Local Growth Fund Payment Determination April 2015 have been complied with.

We have issued the following Draft Reports for which we are awaiting the final management responses before issuing the Final Report:

- Delves Infant and Nursery
- Rowley View Nursery
- St Anne's Catholic Primary School
- St Francis Catholic Primary School
- St Joseph's Catholic Primary School
- St Peter's Catholic Primary School

Changes to the Plan

There have been no changes to the plan since the last meeting of the Audit Committee.

Other Work:

Risk Management

We held a session on risk management on June 15th to assist the ICT team strengthen their risk register following the Limited assurance report received in 2015/16. This was well received, and we are currently working with staff in ICT to populate the controls against each of the identified risks.

Over the coming weeks, we will be holding other Risk Management sessions with Directorates prior to starting our work on the Assurance Framework.

We will also be co-ordinating any updates being made to the Corporate Risk Register and presenting these to CMT for consideration. An update position will be provided at the next meeting.

Follow-up of Recommendations

2015/16

The table below highlights the number of recommendations raised in the audit reports for 2015/16. It should be noted that progress in implementing recommendations raised is due for follow up as part of the 2016/17 audit plan, and summary of findings to date is shown in the table below:





Year	Total Recommendations	Implemented	%	Implemented or partly implemented	%
2015/16	453	220	49%	234	52%

Appendix 3 provides a summary of the status of all 2015/16 recommendations where the proposed implementation date was at or before 31st July 2016.

Definition of Assurance & Priorities

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Good		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		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.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		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.
Nil		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.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Good' does not imply that there are no risks to the stated control objectives.

Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

Priority 1 Recommendations

No priority 1 recommendations have been raised in the Final reports issued to date.

Appendix 1 – Status of Audit Work 2016/17

	Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							Evaluation	Testing	1	2	3	
Core Financial Systems	Main Accounting	Covering adequacy and effectiveness of controls including access control, journals, virements, etc. CRSA to be applied.	10		Q4							
	Treasury Management, Cash & Bank	Covering adequacy and effectiveness of controls over investments, loans, management information, etc. CRSA to be applied.	10		Q4							
	Accounts Receivable	Covering adequacy and effectiveness of controls over the Accounts Receivable system. CRSA to be applied.	10		Q3							
	Accounts Payable	Covering adequacy and effectiveness of controls over the payment of creditor invoices. CRSA to be applied.	10		Q3							
	Budgetary Control	To cover strategic approach to co-ordinating budgetary control, monitoring and reporting, and also testing a sample of departments.	10		Q4							
	Council Tax	Covering adequacy and effectiveness of controls including liabilities, billing, cash collection, recovery and accounting. CRSA to be applied.	15		Q4							

Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
						Evaluation	Testing	1	2	3	
NNDR	Covering adequacy and effectiveness of controls including Business Rate Retention Scheme, liabilities, billing, cash collection, recovery and accounting. CRSA to be applied.	15		Q4							
Housing Benefit & Local Council Tax Support	Covering adequacy and effectiveness of controls including new claims, size criteria, benefit caps, amendments, backdated benefits, payments and reconciliations. CRSA to be applied.	20		Q3							
Payroll and Pensions Administration	Covering adequacy and effectiveness of controls over starters, leavers, amendments, etc.	15		Q3							
Asset Management	Assurance over the design and application of controls relating to areas such as asset management strategy, capital accounting, partnership arrangements with voluntary sector / local community groups, etc.	10		Q3							
Core Financial Systems Total		125									
Operational Risks	Change and Governance										
	Homelessness	Covering adequacy and effectiveness of controls over homelessness, including the approach to developing the Homelessness Prevention Strategy	15		Q2	Scoping meeting held					
	Human Resources	Covering adequacy and effectiveness of key controls over recruitment, workforce planning, sickness absence and training	15	0.5	Q4						

Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
						Evaluation	Testing	1	2	3	
Economy and Environment											
Public Health Information Governance	To cover controls over handling, storing and sharing personal information, reporting data breaches and management reporting.	15		Q4							
Active Living Centres	Covering adequacy and effectiveness of key controls over project management arrangements.	10	0.5	Q2	Fieldwork starts 22 nd August						
Code of Conduct for Operational PFI/PPP Contracts	Covering the engagement with PFI/PPP partners to improve operational efficiency, and explore opportunities for cost reduction.	10	8	Q1	Fieldwork completed						
Town and District Centres Markets	To cover controls over the operation of a sample of markets within the borough to ensure secure collection and maximisation of income.	10	0.5	Q2	Terms of Reference issued						
CRC Energy Efficiency Scheme	Annual audit and sign off	10	9.5	Q2	Draft report issued						
Local Growth Fund	Annual audit and sign off	5	5	Q2	Completed	N/A					
Children's Services											
Troubled Families	Covering adequacy and effectiveness of controls in place over eligibility, payments and achievement of progress measures.	10	0.5	Q2 & Q4	Scoping meeting held						

Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
						Evaluation	Testing	1	2	3	
Adoption and Fostering	Covering controls in place to safeguard children being moved from care into adoption and fostering arrangements, and that appropriate contact arrangements are in place.	10		Q3							
Residential Care	Covering controls in place regarding the quality and safety of children's residential care.	15		Q4							
Schools Improvement Service	To cover the effectiveness of the arrangements in place to support school improvement and to facilitate co-operation between schools.	10		Q4							
Multi-Agency Working (MASH)	Covering Children's Services	15		Q2							
Adult Social Care											
Deputyships and Appointeeships	To cover controls in place over expenditure and income received, and to ensure legal requirements are met and assets are safeguarded.	10	8	Q1	WIP						
Direct Payments and Personal Budgets	Covering controls over the eligibility assessment and monitoring of payments to ensure that vulnerable adults receive appropriate level of care (to include ILF transfers).	15		Q3							
Community Alarms and Telecare Service	Covering controls over the service provided to vulnerable clients.	10		Q3							
Community Capacity Grant	Annual audit and sign off	5	5	Q2							

	Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							Evaluation	Testing	1	2	3	
	End to End Operating Model	Carried forward from 2015/16	10		Q3							
	Resource Allocation and Support Planning	Carried forward from 2015/16	10		Q4							
Operational Risks Total			210	37.5								
Strategic Risks	Procurement	Covering adequacy and effectiveness of the Council's corporate approach to procurement, including impact of new EU Procurement Directives.	30	0.5	Q2-Q4	Scoping meeting held						
	Contract Management	Covering adequacy and effectiveness of the Council's corporate approach to contract management.	25		Q2-Q4							
	Facilities Management	Covering the controls in place over accommodation arrangements, security, cleaning and insurance.	15	8	Q2	Work in Progress						
	Partnership Arrangements and Shared Services	Review the arrangements in place for joint strategic needs assessments and the changes in commissioning services.	20	0.5	Q3	Scoping meeting held						
	Regeneration including Local Enterprise Partnerships	Project management assurance in respect of significant regeneration schemes.	20		Q3							
	Performance Management	Covering adequacy and effectiveness of the Council's strategic approach to performance management (including management information, target setting, reporting, roles and responsibilities)	15		Q3							
Strategic Risks Total			125	9								

Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
						Evaluation	Testing	1	2	3	
Counter Fraud	Internal Audit will work with the Council in the development of a fraud risk register, the provision of fraud awareness training, pro-active fraud exercises and reactive investigations.	30	2	Q1-Q4							Attendance at Midlands Fraud Group and CIPFA Fraud presentation
Governance and Risk Management	The use of CRSA to provide assurance that managers understand their requirements and take ownership of their responsibilities. Risk Management Workshops for staff and Members.	30	4	Q1-Q4							ICT Risk Management session and follow up work
Continuous Auditing/Data Mining	Data analysis scripts will be written on which both identify anomalies as well as comparing the number of anomalies occurring on a period by period basis. Suggested areas of review are Payroll, Accounts Payable or Asset Management.	20		Q2-Q4							
Benefit/Savings Realisation	To provide assurance that processes are in place to measure such initiatives.	20		Q3							
CRSA	The use of CRSA to provide assurance that managers understand their requirements and take ownership of their responsibilities. To be utilised on a number of the core financials and will be issued prior to fieldwork and used to scope the audit.	15		Q3-Q4							
Governance, Fraud & other Assurance Methods		115	6								

	Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							Evaluation	Testing	1	2	3	
ICT	The specific audits and scopes will be agreed with management	The specific audits and scopes will be agreed with management	40	1	Q2-Q4							
ICT total			40	1								
Other	Follow-up of Recommendations	Follow-up of all priority 1 and 2 recommendations made in final reports issued.	30	10	Q1-Q4							
	Management and Planning	Including attendance at Audit Committee	85	25	Q1-Q4							
	Ad Hoc/Contingency	Contingency allocation to be utilised upon agreement of the Chief Finance Officer. -Completion of 15/16 audit work	70	10								
Other total			190	45								
Schools	To provide the Chief Finance Officer with adequate assurance over standards of financial management and the regularity and probity of spend	To provide the Chief Finance Officer with adequate assurance over standards of financial management and the regularity and probity of spend	120	52								
Schools Total			120	52								
TOTAL			920	150.5								

Appendix 2 - Summary of Final Reports

Brief outlines of the work carried out, a summary of our key findings raised and the assurance opinions given in respect of the final reports issued since the last meeting of the Audit Committee are provided in this section.

Our school audits considered the following areas of activity:

- Governance
- Financial Planning
- Budget Monitoring
- Procurement
- Financial Controls
- Income Controls
- Voluntary Funds
- Extended Activities
- Banking (including LMS Bank Account)
- Payroll
- Petty Cash
- Tax
- Assets and Security
- Insurance
- Information governance
- Arrangements are in place for the completion & submission of the SFVS self-assessment form by 31/03/17

County Bridge Primary School

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Substantial	Substantial

We have raised four priority 2 recommendations and 10 priority 3 recommendations where we believe there is scope for improvement within the control environment. Our main findings were:

- The handover of cash between officers is not documented and signed for.
- From examination of 10 orders / invoices it was found that in one case the order and invoice had been signed by the same officer.
- A safe log is not currently in place.
- Portable assets have not been security marked.

Pool Hayes Primary School

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Substantial	Substantial

We have raised four priority 2 and 12 priority 3 recommendations where we believe there is scope for improvement within the control environment. Our main findings were:

- Income is not banked promptly resulting in the safe insurance limit being exceeded.
- From examination of 10 orders / invoices it was found that in 3 cases the order and invoice had been signed by the same officer and in 3 cases an order had not been raised.
- The school fund has not been audited since 2013/14.
- A data sharing agreement with the recently appointed provider of financial services has not been considered.

Whitehall Nursery & Infants School

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Substantial	Substantial

We have raised six priority 2 and nine priority 3 recommendations where we believe there is scope for improvement within the control environment. Our main findings were:

- Financial procedure notes are not in place to enable the school to continue to function in the absence of a key member of the finance staff.
- Cash collection sheets are not always completed / retained and the handover of cash between officers is not documented and signed for.
- From examination of 10 orders / invoices it was found that in all cases the order and invoice had been signed by the same officer.
- A safe log is not currently in place.
- School fund banking is prepared, and paying in slip completed by the School Business Manager. Paying in slips are not independently checked prior to banking.

Elmwood School

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Good	Substantial

We have raised one priority 2 recommendation and three priority 3 recommendations where we believe there is scope for improvement within the control environment. Our main finding was:

- There is no evidence retained on the annual inventory check.

Appendix 3 – Summary of Unplanned/Irregularity Reports

Brief outlines of the work carried out, a summary of our key findings raised and the assurance opinions given (if applicable) in respect of unplanned/irregularity reports issued since the last meeting of the Audit Committee will be provided in this section.

No unplanned/irregularity work has been carried out to date. We received two referrals which have been identified as management issues and were passed to other staff members as appropriate.

Appendix 4 - Follow-up of Recommendations 2015/16

A follow-up audit has been undertaken in accordance with the 2015/16 audit plan. The objective was to confirm the extent to which the recommendations made in 2015/16 internal audit final reports have been implemented.

The tables below provide a summary of the status of all 2015/16 recommendations where the proposed implementation date was at or before 31st July 2016 and have not been reported as implemented at the previous Audit Committee meeting.

Title	Raised	Implemented	Partly Implemented	Outstanding	No longer relevant	Original Due Date	Revised Due Date	No Response	Not yet due
Capital Accounting	5	5							
Capital Programming	2	2							
Council Tax/NNDR	10	3				Dec 2016			7
Bank Account Reconciliations	11	7	4						
Cash and Bank	2	2							
Nominal Ledger	1	1							
Treasury Management	2	2							
Troubled Families Grant January 2016 Claim	1	1							
Carbon Reduction Commitment Efficiency Scheme (CRC)	11	7		4					
Bereavement & Registration (including Coroner)	14	12	2			Mar 2016	Mar 2017		
Green Spaces	9	4	2			Jan 2016		3	
Customer engagement, consultation and complaint management	30	19	2	5		Mar 2016	Oct 2016		4
Community Capacity Grant	1	1							

Title	Raised	Implemented	Partly Implemented	Outstanding	No longer relevant	Original Due Date	Revised Due Date	No Response	Not yet due
Autism Innovation Capital Grant	1	1							
Adult Safeguarding	24	14				Sept 2016			10
Personal Budgets inc Direct Payments	16	0	2			Sept 2016			14
Looked After Children Follow Up	5	1				Aug 2015		4	
Schools Property Maintenance Follow Up	3	3							
Accommodation Services Follow Up	5	3				Feb 2016	Mar 2017		2
Asset Management Follow Up	6	6							
Stroud Avenue Family Centre Follow Up	1	0				Jun 2016	Jan 2017		1
Growth Deal	4	4							
Shared Lives	10	2		5		Jun 2016	Dec 2016		3
Corporate Risk 3b	3	3							
Software Licensing	7	5				Sep 2016			2
Payroll Follow Up	8	5				Sep 2016			3
Corporate Risk 3a	6	6							
Housing Benefit & Council Tax Reduction Follow Up	6	4				Dec 2016			2
Mental Health Follow Up	16	5		11		Sep 2015			
Better Care Fund	2	0				Sep 2016			2
Residential Charging	30	0				Dec 2016			30
Accounts Payable Follow Up	12	10				Sep 2016			2

Title	Raised	Implemented	Partly Implemented	Outstanding	No longer relevant	Original Due Date	Revised Due Date	No Response	Not yet due
Cloud Computing	4	0				Jun 2017			4
Solihull Framework	13	3				Oct 2016			10
Social Media	11	0				Mar 2017			11
Accounts Receivable Follow Up	10	3				Mar 2017			7
Corporate Risk 9	5	5							
ICT Risk Management	6	0				Dec 2016			6
Christchurch Primary School	35	29	2			Sep 2016			4
Jane Lane School	31	23				Oct 2016			8
Blakenall Heath Junior	13	1				Sep 2016			12
Leamore Primary School	12	4				Sep 2016			8
Phoenix School	19	7				Sep 2016			12
St Thomas of Canterbury Catholic Primary School	22	5				Sep 2016			17
Sunshine Infants & Nursery School	7	2				Sep 2016			5
Greenfield Primary School Follow Up	1	0				Sep 2016			1
	453	220	14	25				7	187

Appendix 5 - 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.

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