

Audit Committee – 20 July 2015

Internal Audit Annual Report 2014/15

Summary of the Report

To present Internal Audit's Annual Report 2014/15 (**Appendix 1**) to the Audit Committee.

Recommendation

- 1. To note the contents of the report.**

Resource and Legal Considerations

The Accounts & Audit Regulations 2015 require councils to undertake an effective internal audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance. The PSIAS requires that the Head of Internal Audit provides an annual report to the Audit Committee timed to support the Annual Governance Statement. This report meets that requirement.

Governance Issues

The Audit Committees 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 Management and Risk Management Issues

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

Equality Implications

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

Consultation

The annual report has been endorsed by the Council's statutory Chief Finance Officer. The audit plan was consulted upon, before its final endorsement by the Audit

Committee, with executive directors and senior managers. All audit reports are subject to an appropriate level of consultation before being finalised.

Background papers

Internal Audit reports/files/working papers.

Author

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A handwritten signature in black ink, appearing to read 'James Walsh', with a stylized flourish at the end.

James Walsh - Chief Finance Officer

6 July 2015

Internal Audit Annual Report 2014/15

Head of Internal Audit's Opinion on the Council's Internal Control Environment

Summary of Opinion

In my opinion, formed solely on the basis of the work undertaken by Internal Audit and its partner organization in 2014/15, and the positive action taken or intended to be taken by managers to implement agreed audit report actions, a **significant level of assurance** can be provided in relation to the overall adequacy and effectiveness of Walsall Council's framework of governance, risk management and control (the internal control environment).



Control weaknesses were identified during the 2014/15 financial year and were reported as such to relevant managers. The opinion as to the level of assurance that can be placed on the system of internal control is based on an assurance that accountable managers address findings within the agreed audit report action plans in the areas for which they are responsible.

The internal control environment can only provide reasonable and not absolute assurance regarding the achievement of the council's policies, aims and objectives. The opinion is based on work in the approved operational audit plan, including irregularity, consultancy and advisory work carried out in 2014/15.

All audit work is subject to agreed terms of reference, objectives and resources allocated by the Council for that purpose.

External Audit Review of Internal Audit

In Grant Thornton's report dated July 2015, to be presented to 20 July 2015 Audit Committee, they conclude the following:

"We have concluded that Internal Audit's responsibilities are appropriate and they have appropriate status within the authority. Internal Audit has adopted appropriate methods for undertaking their work and their plan includes coverage of internal controls, including financial, and consideration of governance issues. They report their findings effectively and are able to report independently to Audit Committee. Our review of Internal Audit work has not identified any weaknesses which impact on our assessment of the control environment".

Basis of Audit Opinion

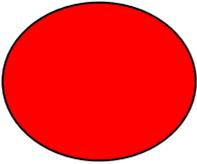
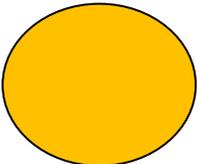
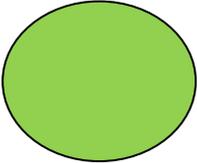
The Council's Financial Rules require the maintenance of an Internal Audit Service, which complies with the requirements of section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations.

Many discrete elements of audit work form a contribution to the opinion. These include planned audit work, irregularity and consultancy work, follow up audit work and also general professional advice where no formal report may have been issued but which contribute to the overall opinion.

Audit activity is planned on a risk-based, systematic approach which incorporates the results of consultation with executive directors, assistant directors and senior managers. The council's statutory Section 151 Officer (assistant director – finance), corporate management team (CMT) and the Audit Committee endorse the strategic audit plan.

There were no constraints or limitations placed on the scope of Internal Audit's work in the year.

For each area of planned audit activity, an overall audit opinion is reported. The range of audit opinions which may be awarded are as detailed in the table below:

| Overall Audit Opinion | | |
|-------------------------------------------------------------------------------------|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | No assurance | No assurance as weaknesses in control, or consistent non compliance with key controls, [could result / have resulted] in failure to achieve the organisation's objectives in the areas reviewed. |
|  | Limited Assurance | Limited assurance as weaknesses in the design or inconsistent application of controls put the achievement of the organisation's objectives at risk in the areas reviewed. |
|  | Full Assurance | Full assurance that the system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed. |
| | Significant Assurance | Significant assurance that there is a generally sound system of control designed to meet the organisation's objectives. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk. |

If a planned audit report receives a no or limited assurance opinion, it is summarily reported to Audit Committee and there is a prompt follow up audit of the high priority findings contained within the report. On follow up, the range of audit opinions which may be awarded are as follows:

| Follow Up Audit Opinion | |
|--------------------------------|------------------------------------------------------------------------------------------------------------|
| No Progress | None of the high priority findings within the audit report have been closed / addressed. |
| Limited Progress | Limited progress has been made in closing / addressing high priority findings within the audit report. |
| Significant Progress | Significant progress has been made in closing / addressing high priority findings within the audit report. |
| Full Progress | All high priority findings within the audit report have been closed / addressed. |

Where a follow up audit report receives a no or limited progress opinion, the responsible executive directors and their accountable managers are required to attend Audit Committee to give assurances that weaknesses detailed within these reports have or are being addressed. Where relevant, unplanned assurance audits are also subject to follow up.

The Internal Control Environment

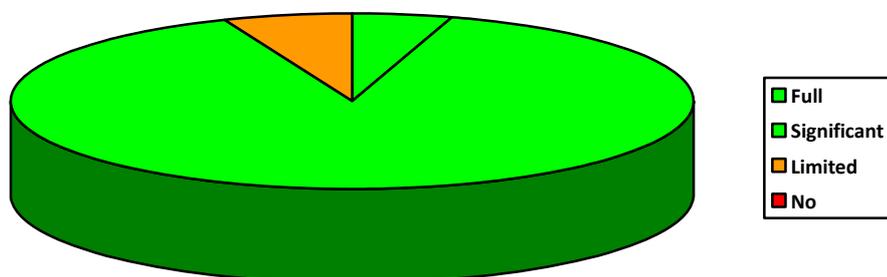
Planned Assurance

Appendix A details the assurance opinion for each planned audit undertaken during 2014/15.

During 2014/15, 83 planned audit reviews were undertaken, excluding unplanned irregularity, consultancy and follow up work. Of these:

- 4 reviews (5%) received a full assurance opinion;
- 74 reviews (89%) received a significant assurance opinion, 13 of these were borderline;
- 5 reviews (6%) received a limited assurance opinion; and
- 0 reviews (0%) received a no assurance opinion.

Overall, 78 reviews (94%) were given significant assurance or above. The distribution of assurance is as detailed below:



Fundamental Financial Systems

The assurance opinions given to the fundamental financial systems are detailed in the table below:

| Financial System | Assurance Opinion |
|-------------------------------------------------------|--------------------------|
| Accounts Payable (Creditors) | Significant |
| Accounts Receivable (Debtors) | Significant |
| Bank Account Reconciliations | Borderline Significant |
| Budget Management | Significant |
| Capital Accounting | Significant |
| Cash & Bank (Banking Hall & Income Management System) | Significant |
| Council Tax / National Non Domestic Rates (NNDR) | Significant |
| Housing Benefit & Council Tax Reduction | Borderline Significant |

| Financial System | Assurance Opinion |
|-------------------------------------|--------------------------|
| Nominal Ledger / Central Accounting | Significant |
| Payroll | Significant |
| Treasury Management | Significant |

All fundamental financial systems were found to be operating satisfactorily, receiving a significant assurance opinion. Housing Benefit & Council Tax Reduction and Bank Account Reconciliations received a significant (borderline) assurance opinion.

Other Financial & Non Financial Systems

In addition to fundamental financial systems, audits were undertaken in 2014/15 of other financial and non financial systems and processes that contribute to the council's overall corporate governance arrangements.

Internal audit's work identified that although in most audit assignments the processes examined were generally working satisfactorily, system weaknesses were identified in certain areas as shown in those given a limited assurance opinion.

The table below details the 5 reviews where a limited assurance opinion was given:

| Directorate | Audits with a Limited Assurance Opinion |
|-------------------------|---------------------------------------------------------------|
| Children's Services | Butts Primary School |
| | Greenfield Primary School |
| | Stroud Avenue & Dale Street Family Centres |
| Regeneration | Schools Property Maintenance |
| Social Care & Inclusion | Dudley & Walsall Mental Health Partnership & Integrated Teams |

2014/15 Follow Ups

Audits given a no or limited assurance opinion are subject to a follow up audit. During 2014/15, of the 15 follow up audits undertaken, 1 (7%) had made full progress in addressing previously identified control weaknesses, 12 (80%) had made significant progress and 2 (13%) had made limited progress (**Appendix B**). The 2 limited progress follow ups are detailed in the table below.

| Directorate | Audit |
|-------------------------|---------------------------------------------------------------------|
| Resources | Accommodation Services and Homelessness |
| Social Care & Inclusion | Independent Sector – Residential & Nursing (Follow Up of Follow Up) |

Unplanned Assurance

Unplanned assurance work comprises of:

- advisory and consultancy related services which are carried out to improve services and to add value, including the impact of proposed policy initiatives, programmes and projects as well as emerging risks.
- prevention, detection and investigation of fraud and corruption; and other irregularity.

A summary of this work is reported 6 monthly to the Audit Committee.

A contingency exists within the annual audit plan for this type of work. There was only a marginally higher than anticipated level of time spent on this work during the year, a total of 518 actual days against 510 planned days (8 days in excess of that planned).

Advisory and Consultancy

Professional advice and consultancy assistance was provided to managers during the year with details of this work being reported 6 monthly to the Audit Committee. The work has been varied and included attendance at meetings, or contribution to a number of initiatives. Examples have included:

- Review of system change / implementation such as advice on the implementation of MOSAIC, the replacement to the PARIS system used within the Children's and Social Care directorates; project management arrangements for development of the new Active Living Centres; systems for implementation of CM 2000, the new electronic homecare delivery recording system and governance arrangements for the Growth Fund.
- Review of policies and procedures for example, counter fraud, money laundering and proposed changes to the processing of employee expenses.
- The Head of Internal Audit "sign off" of grants such as the adoption reform grant, Care Act implementation grant, community capacity (capital) grant and the troubled families grant.
- Response to Freedom of Information / Data Protection Act requests.
- The Head of Internal Audit's contribution at and championing governance at the Governance Forum.
- Provision of counter fraud training to schools.

Prevention, Detection and Investigation of Fraud and Corruption & Other Irregularity

A number of unplanned jobs, including investigation of suspected frauds and irregularities, were undertaken by the service during the year, 5 being notified through the whistle blowing procedure. While most cases were not material in the context of this opinion, the following cases in particular have given cause for concern this year:

- During 2014/15, a potential fraud was identified within supported accommodation payments made to a provider. At the time of production of this opinion, work was still ongoing to quantify the loss. This fraud principally remained undetected as the officer involved had too much autonomy in the process. As a result of this, the system of internal control for supported accommodation has been reviewed by the Money Home Job service and payments to other supported accommodation providers are also currently being investigated.
- Following the receipt of a whistle blow, an enquiry was undertaken into procurement and recruitment practices within Children's Services. It was identified that the arrangements for engaging agency workers and consultants within Children's Services required strengthening in terms of ensuring compliance with the Council's contract rules. A "lessons learned" has been disseminated to all Executive Directors.
- An investigation was undertaken following a complaint received that money had allegedly been inappropriately received by an officer for arrangement of a

lease. The officer involved was dismissed and a review of the council's internal control environment in the lease management of properties held was undertaken. An action plan for improvement has been agreed with asset management.

- The investigation of allegations that trade refuse collectors had personally received cash payments for collections made, as detailed in the 2013/14 annual report reached its conclusion. Of the officers involved, 2 resigned, 1 was dismissed and 1 received a final written warning. Trade refuse monitoring controls were strengthened as a result.

Where relevant an action plan for improvement is agreed with accountable managers to address any control weaknesses identified as part of prevention, detection and investigation of fraud, corruption or other irregularity work. These are subject to a follow up, as appropriate.

Of significance to the 2012/13 – 2014/15 opinions were the investigation of allegations (including whistle blowing) which were received from different sources in respect of procurement practices, the management of appointeeships and systems to implement personalisation within social care and inclusion. Internal audit work undertaken in respect of this led to the suspension of 3 senior officers, including the former executive director of social care and inclusion. A disciplinary investigation was undertaken by external investigators, resulting in the dismissal of 2 of the senior officers, which included the former executive director of social care and inclusion. During 2014/15, audit has continued to assist in resolving matters arising from this including preparation, attendance and successfully defending the Council at Employment Tribunal as well as continuing to resolve on-going matters, most notably the Council's transfer of its appointeeships. This work is now reaching its resolution.

Also noted of concern in the 2011/12 – 2014/15 opinions was anonymous allegations received concerning financial mismanagement within Fibbersley Park Children's Centre. This long standing case was heard at Wolverhampton Magistrates Court on 7 April 2015 and the former Children's Centre Manager and her husband were found guilty of false accounting totaling £8,581.06 and sentenced. Recovery action is commencing.

A brief summary of a number of other cases investigated during 2014/15 is shown below:

Misuse of funds/resources

Several cases were reported for investigation alleging misuse of resources, cash and council equipment. For example, grant funding provided to third parties and systems for claiming overtime.

Procurement

Cases have been referred for investigation regarding potential procurement irregularities, including potential non compliance with the Council's contract rules and failure to declare interests.

Human Resources

Cases have been referred for investigation regarding potential irregularity with restructures and application of human resource policies such as the disciplinary process. These have included whistle blowing allegations in Money, Home, Job and Property Services.

Data security breaches

Allegations regarding data security breaches have been investigated by the section. Where required, actions have been agreed with relevant managers and shared with the Information Governance team to further strengthen arrangements in place.

Internet / e mail systems' misuse / inappropriate computer content

Instances have been investigated where managers have reported concerns with employees allegedly making inappropriate use of the Council's internet and e mail facilities. All reported cases were investigated and appropriate action taken.

Schools

This year has seen a number of investigations following concerns raised regarding the financial management of certain of the boroughs schools. Compliance weaknesses in procurement, record management, payroll, cash & banking were noted. Action plans have been agreed with the respective Headteachers (where applicable) and School Improvement Service.

Benefits Fraud

There has been a rise in Council staff committing housing benefit and council tax reduction fraud this year. Internal audit have assisted management in consideration of disciplinary action in these cases.

Unplanned Follow Up

Unplanned audits are also, where relevant, subject to a follow up. This is to ensure that control weaknesses arising from unplanned assurance reports have been addressed. During the period, 3 unplanned assurance follow up audits were undertaken. Full assurance regarding implementation of agreed actions was given in 1 case and significant assurance in the other 2. A summary of these reports are detailed in Appendix B.

Other Assurance

As part of the CIPFA Code of Practice, opinions received from work undertaken by other assurance bodies should be included as a contribution to the Head of Internal Audit's overall opinion.

Most notably to the 2013/14 opinion and Annual Governance Statement was Grant Thornton's recommendation under Section 11(3) of the Audit Commission Act 1998 in their annual audit letter dated October 2013, that the Council should:

- review existing governance processes and procedures to provide assurance that the existing governance framework is fit for purpose; and
- investigate how governance is applied across the council, to ensure that expected ethical standards are reinforced and that a culture of compliance is embedded throughout the organisation.

The Council had already created a Governance Forum which subsequently sought to address the above.

Grant Thornton, in their January 2015 report to Audit Committee concluded that the specific failures that triggered their review were not evidence of fundamental weaknesses to the Council's overall governance framework. They concluded that the Council was making sufficient progress in addressing their recommendation and on that basis no statutory recommendations were required at that time. Grant Thornton commended the council for its response to date and stated that they would continue to support the council's work on embedding a strong well governed culture in support of its services. An action plan arising from Grant Thornton's review was agreed by the Corporate Management Team in December 2014 and reported to Audit Committee on 5 January 2015.

An OFSTED inspection of the Council's school improvement service took place in June 2014 and concluded that arrangements were ineffective. An action plan was put in place to address the findings. A re-inspection date is expected.

The Parliamentary Under Secretary of State for Children & Families, Edward Timpson MP wrote to the Council in March 2015 formally lifting the 'remaining extra oversight' by the Department for Education following the lifting of the improvement notice in July 2014 (originally imposed following the inadequate Ofsted Inspection of Safeguarding in 2012).

The Office of the Public Guardian (OPG) inspected the council's arrangements for deputyships in September 2014. The result was a largely critical report, detailing a lack of ownership, compliance issues on client files and lack of coordinated approach in joint visits / reviews. An internal audit was undertaken in April 2015 in advance of a planned OPG re-inspection, which highlighted areas which needed strengthening. The OPG performed a re-inspection in June 2015. While their report is awaited, initial feedback from the inspector is positive.

Performance

Public Sector Internal Audit Standards

A compliance checklist has been produced by Internal Audit against the Public Sector Internal Audit Standards (PSIAS) which came into effect from 1 April 2013 and Internal Audit's progress against the standards has been regularly reported to Audit Committee (24 June 2013, 2 September 2013, 24 February 2014 and 1 September 2014).

Of the 206 point checklist which makes up the PSIAS, only 10 points now remain outstanding, all relating to one action which is the requirement for a 5 yearly external assessment of internal audit's PSIAS compliance, to be undertaken by April 2018.

The Chief Finance Officer reviewed Internal Audit's current self assessment in June 2015 and confirmed that evidence was available to support the above statement.

On 1 September 2014, Audit Committee agreed the form of the external assessment, a peer review of Internal Audit's self assessment to be undertaken by WM Ambulance Services. A memorandum of understanding has been agreed between the Council and WM Ambulance Services and work is progressing. The outcome of this work will be reported to Audit Committee in due course.

Performance Measures

The overall performance of internal audit in 2014/15 demonstrates a good level of performance against the service's performance measures. A summary of year end performance is detailed within the performance dashboard at **Appendix C**.

Audit Plan Adjustments 2014/15

During the year, the risk profile of the Council can change and audits once planned, may become no longer necessary. It may also be the case that an audit was planned, but audit coverage has been obtained via unplanned work or a follow up audit. The following details the plan adjustments for 2014/15 which Audit Committee is requested to note:

| 2014/15 Audit | Reason for Adjustment |
|------------------------------------------------------|-------------------------------------------------------------|
| Customer Consultation, Engagement, Complaints & Care | Carry forward to 2015/16 |
| Legal Services | Some coverage via unplanned work. Carry forward to 2015/16. |
| Pooled budgets | Carry forward to 2015/16. |
| Adult safeguarding | Carry forward to 2015/16 |
| Leamore School | Carry forward to 2015/16 at the request of the School |
| Capital Programme | No longer required. Coverage via 2013/14 |
| Public Health and Wellbeing Board | No longer required. Coverage via 2013/14 |
| Beacon Primary School | Coverage via unplanned work. |

Internal audit achieved 94% of the audit plan in 2014/15.

Author:

Rebecca Neill

Head of Internal Audit

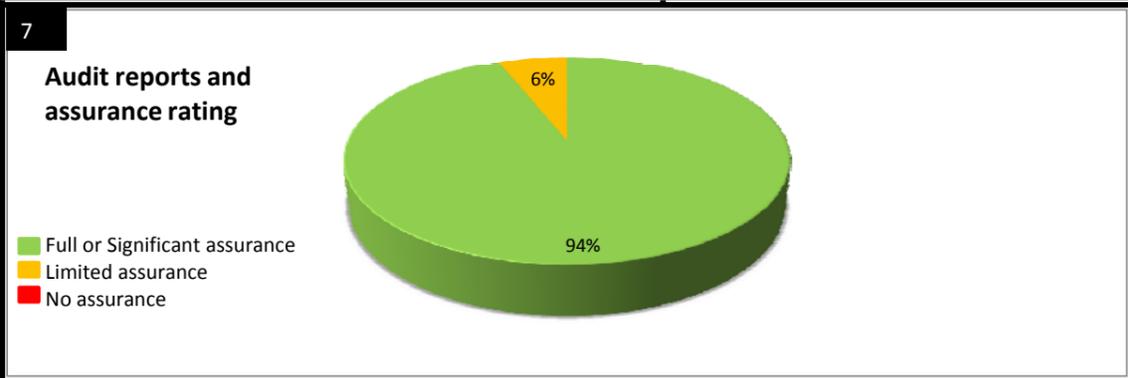
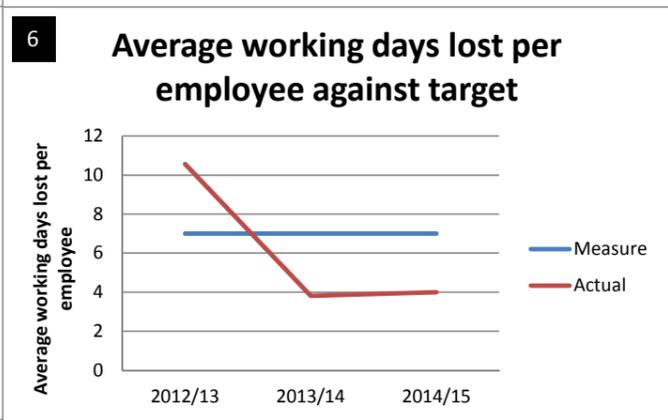
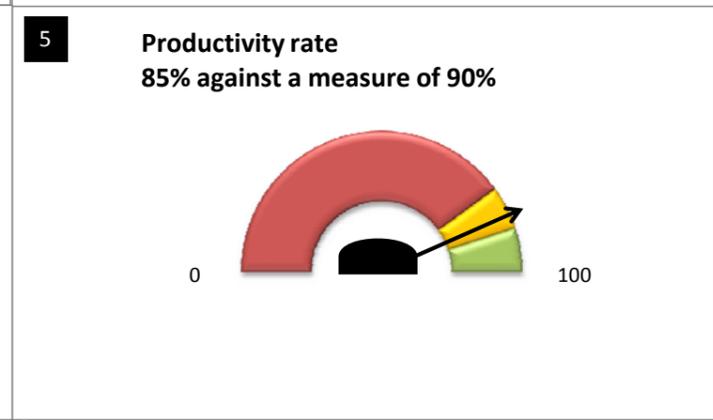
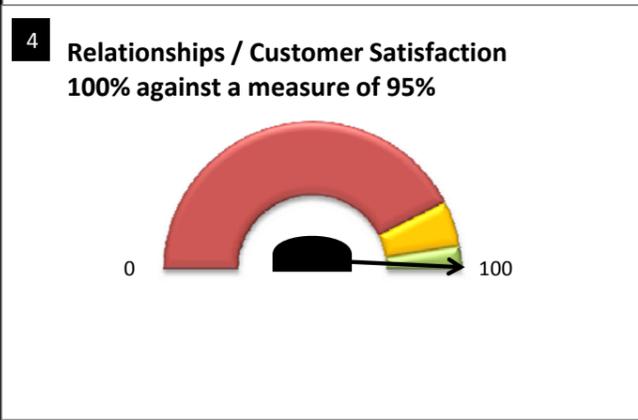
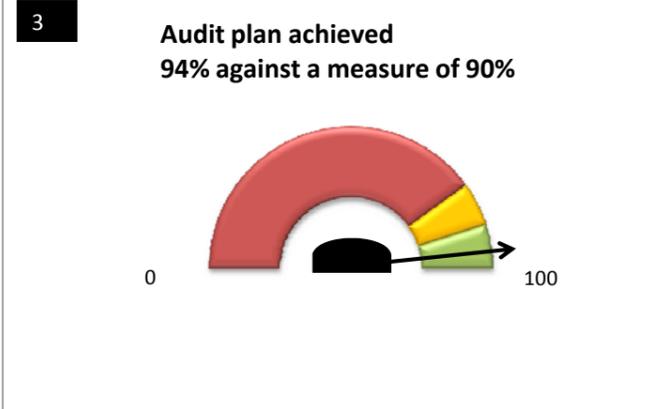
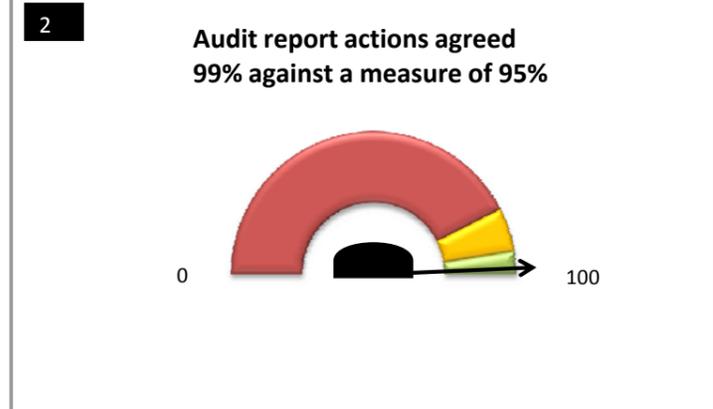
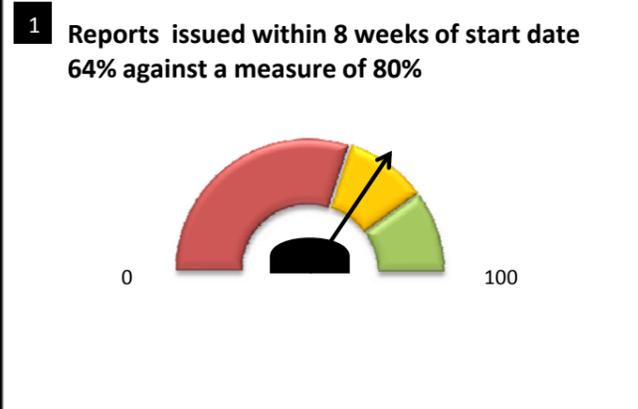
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| AUDIT | ASSURANCE OPINION |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| All: Accounts Payable Accounts Receivable Agency Workers Budgetary Management Contract Systems Grants Information Governance Payroll Recruitment & Selection Regulation of Investigatory Powers Act 2000 Risk Management Strategic Risk Register: Failure to Deliver Phoenix 10 Project Failure to Safeguard Children and all Vulnerable Adults Workforce Management | Significant Significant Significant (Borderline) Significant Significant (Borderline) Significant Significant Significant Significant Significant Significant (Borderline) Significant Significant Significant (Borderline) |
| Childrens Services: Early Help Placement & Resources Residential Care: Hilton Road Lichfield Road Spindle Tree Rise Stroud Avenue & Dale Street Family Centres Transport Provision Walsall Youth Support Services | Significant Significant (Borderline) Significant Significant Significant Limited Significant Significant |
| Neighbourhoods: Area Partnerships (Panels) Car Parking Community Safety Libraries Service Major Projects & Minor Improvement PFI - Streetlighting Resilience Sports & Leisure Strategy Trading Standards Traffic Management Walsall Adult & Community College Waste Management Establishment Waste Management - Landfill & Disposal Sites | Significant Significant Significant Significant Full Significant Significant Significant Significant Significant Significant Significant (Borderline) Full |
| Regeneration: Asset / Office / Facilities Management Carbon Reduction Commitment Energy Efficiency Scheme Estate Management (inc Land Terrier & Land Sales) Schools Property Maintenance Strategic Regeneration | Significant Significant Significant Limited Full |
| Resources: Bank Account Reconciliations Capital Accounting Cash & Bank (Banking Hall / Income Management System) Council Tax / NNDR Disabled Facilities Grant Free School Meals Housing Benefits & Council Tax Reduction Housing Standards & Improvement Leasing Nominal Ledger & Central Accounting Treasury Management | Significant (Borderline) Significant Significant Significant Significant Significant Significant (Borderline) Significant Full Significant Significant (Borderline) |

Audit Performance Dashboard 2014/15

Assurance



8 Audited time budgeted against actual days
1,510 days against a measure of 1,525 days

Internal Audit's expenditure for the period was within that budgeted.

VFM savings achieved / irregularity costs identified / recovered
£874k against a measure of £650k

