

## **Audit Committee – 27 June 2016**

### **Internal Audit Opinion 2015/16**

#### **Summary of the Report**

To present Internal Audit's Annual Report and Opinion on the Council's Internal Control Environment 2015/16 (Appendix 1) to the Audit Committee. During the course of 2015/16 the internal audit service was outsourced and the work transferred to Mazars LLP. At the time of writing this report the Head of internal Audit left, therefore the conclusion on the opinion on the internal control environment is based purely on the work undertaken by the internal audit service, prior to transfer.

#### **Recommendation**

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



**James Walsh - Chief Finance Officer**

**17<sup>th</sup> June 2016**

#### **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 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 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.

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## Internal Audit Annual Report 2015/16

### Annual Internal Audit's Opinion on the Council's Internal Control Environment

#### Summary of Opinion

Formed solely on the basis of the work undertaken by Internal Audit and its partner organization in 2015/16, 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 2015/16 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 2015/16.

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, presented to 20 July 2015 Audit Committee, concluded 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".

External Audit no longer undertake a formal review of the Internal Audit function; they review the work of Internal Audit however to inform their annual risk assessments. For future years, assurance will be provided through the external assessment of

Internal Audit’s Quality Assurance and Improvement Programme (QAIP). The QAIP covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated. An external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. Mazars are due to be assessed in summer 2016.

**Basis of Audit Opinion**

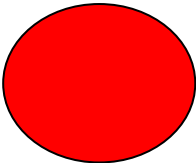
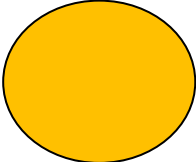
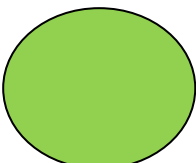
The Council’s Financial Rules require the maintenance of an Internal Audit Service, which complies with the requirements of section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations.

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:

<b>Overall Audit Opinion</b>		
<b>Red</b> 	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.
<b>Amber</b> 	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.
<b>Green</b> 	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:

<b>Follow Up Audit Opinion</b>	
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 2015/16.

During 2015/16, 124 audits were planned and 90 undertaken, excluding unplanned irregularity, consultancy and follow up work. Of these 90:

- 3 reviews (3%) received a full assurance opinion;
- 81 reviews (90%) received a significant assurance opinion;
- 6 reviews (7%) received a limited assurance opinion; and
- 0 reviews (0%) received a no assurance opinion.

Overall, 84 reviews (93%) were given significant assurance or above.

**Fundamental Financial Systems**

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

<b>Financial System</b>	<b>Assurance Opinion</b>
Accounts Payable (Creditors)	Significant
Accounts Receivable (Debtors)	Significant
Bank Account Reconciliations	Significant
Grants	Significant

<b>Financial System</b>	<b>Assurance Opinion</b>
Capital programming	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	Significant Progress
Nominal Ledger	Significant Progress
Payroll	Significant
Treasury Management	Significant Progress

All fundamental financial systems were found to be operating satisfactorily, receiving a significant assurance opinion.

### **Other Financial & Non-Financial Systems**

In addition to fundamental financial systems, audits were undertaken in 2015/16 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 reviews where a limited assurance opinion was given:

<b>Directorate</b>	<b>Audits with a Limited Assurance Opinion</b>
Children's Services / Education	Christchurch
	Jane Lane
Economy & Environment	Solihull Framework for Integrated Facilities Management
Adult Social Care	Residential Charging
Change & Governance / ICT	ICT Risk Management
	Social Media

### **2015/16 Follow ups**

During 2015/16, 7 follow ups were undertaken on some of the councils financial and non-financial systems, rather than a full audit (a number had been subject to a full audit which were completed in 2015 and therefore a further full audit was not deemed necessary). All received a significant progress opinion (Appendix A). These were:

- Project management
- Housing benefit and council tax reduction scheme
- Oracle general ledger
- Treasury management
- Payroll
- Accounts Payable (creditors)
- Accounts receivable (debtors)

## 2014/15 Follow Ups

During 2014/15, 15 audits were given a limited assurance opinion and 12 of these were subject to a follow up audit during 2015/16. The remainder will be followed up in 2016/17. 2 audits were given a limited progress opinion and will be followed up again in 2016/17.

Directorate	Audit	2014/15 Audit Opinion	2015/16 Follow Up Opinion
Children's Services / Education	Butts Primary	Limited	Full Progress
	Lindens Primary	Limited	Significant Progress
	Greenfields Children Centre	Limited (11.06.14) Significant (26.11.14)	Significant Progress
	New Leaf Centre	Limited	Significant Progress
	Stroud Avenue Family Centre	Limited	Significant Progress
	Looked After Children	Limited	Significant Progress
Change & Governance	Accommodation Services & Homelessness	Limited	Significant Progress
Adult Social Care	Telecare	Limited	Significant Progress
	Personal Budgets	Limited	Limited Progress
	Benefits Based Charging	Limited	Follow up in 2016/17
	Independent Sector – Residential & Nursing	Limited	Follow up in 2016/17
Economy & Environment	Asset Management	Limited	Limited Progress
	Schools Property Maintenance	Limited	Significant Progress
All	Partnership Frameworks	Limited	Follow up in 2016/17
All	Commissioning	Limited	Borderline Significant Progress

## 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 and a report on unplanned activity during 2015/16 is contained in a separate private report on tonight's agenda.

## 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:

- Audit support for 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.
- Review of policies and procedures - the counter fraud policy, money laundering policy, the new housing benefit crisis support fund, the car mileage and expenses reimbursement scheme, a review of cash collection procedures at leisure centres and the Adult Social Care charging policy.
- The Internal Audit "sign off" of grants such as the community capacity (capital) grant and the troubled families grant.
- Response to Freedom of Information / Data Protection Act requests.
- Internal Audit's contribution at the Governance Forum and Information Governance Forum.

### **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, 3 being notified through the whistle blowing procedure. 9 irregularity reports were issued. While most cases were not material in the context of this opinion, the following cases in particular have given cause for concern:

- During 2014/15, a potential fraud was identified within supported accommodation payments made to a provider. At the time of production of the 2015/16 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 is being reviewed by the Money Home Job service and payments to other supported accommodation providers are also currently being reviewed.
- 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 totalling £8,581.06 and sentenced. Recovery action is underway.

A brief summary of a number of other cases investigated during 2015/16 is shown below:

#### Procurement

Allegations of preferential treatment of suppliers, 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 recruitment processes and misuse of the car allowance scheme. These have included whistle blowing allegations in several services.

### Schools

This year has seen a number of investigations following concerns raised regarding the financial management of certain of the boroughs schools and 2 allegations of suspected theft of petty cash. Compliance weaknesses in procurement, and record management, payroll, cash & banking were noted. Action plans have been agreed with the respective Headteacher's (where applicable) and School Improvement Service.

### Grants

Several investigations into allegations in relation to grant awards and grant funding provided to third parties.

### Attempted fraud

3 attempts made to defraud the council by manipulating cheques from the Walsall Council Allowances (Housing Benefits) account and 1 email attempt to authorise an urgent payment.

### **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, 1 unplanned assurance follow up audit was undertaken in relation to Special Education Needs provision. Significant assurance regarding implementation of agreed actions was given.

### **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.

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 took place in March 2016 which concluded that there has been improvement since the previous inspection and the service is no longer ineffective. The inspection acknowledged there is still a great deal to be done and as such, OFSTED will continue to monitor the local authority's arrangements for school improvement.

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 compliance team performed a re-inspection in June 2015 and their report was received in September 2015. The Public Guardian advised that he was reassured and encouraged by the tangible improvements that have been highlighted in this report, that he intended to de-escalate matters, and that the supervision team would resume responsibility for the normal day to day supervision of Walsall Council's deputyship activities. A further assurance visit is to be made in twelve months time to re-assess how well the improvement measures the council has put in place are working.

## **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, 9 November 2015).

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 councils Internal Audit provider, Mazars, are subject to an external assessment in summer 2016 and the outcome of this work will be reported to Audit Committee in due course.

### **Performance Measures**

The overall performance of internal audit in 2015/16 demonstrates a good level of performance against the service's performance measures. A summary of year end performance is detailed in a separate report on the agenda tonight.

### **Audit Plan Adjustments 2015/16**

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 2015/16 which Audit Committee is requested to note:

<b>2015/16 Audit</b>	<b>Reason for Adjustment</b>
<b>Corporate Risk Register:</b> <ul style="list-style-type: none"> <li>• Non-achievement of corporate plan</li> <li>• Data control</li> <li>• Demographic change</li> </ul>	Carry forward to 2016/17

2015/16 Audit	Reason for Adjustment
<p><b>ALL – Cross Cutting Audit Reviews:</b></p> <ul style="list-style-type: none"> <li>• Value for Money</li> <li>• Deliverability of Budget Savings</li> <li>• Contracts &amp; Commissioning</li>   <li>• Performance Management framework</li> </ul>	<p>Externally audited  Externally audited  Draft report - further work required so carry forward to 2016/17  Framework redrafted 2015 therefore defer audit to 2016</p>
<p><b>Economy &amp; Environment:</b></p> <ul style="list-style-type: none"> <li>• Delivery &amp; Development</li> <li>• City Deal</li> <li>• Archive &amp; local History Services</li> <li>• Active Living Centres</li> <li>• Transportation – winter service</li> <li>• Black Country Business Property Investment Programme (ERDF)</li> </ul>	<p>Removed – low priority/risk  Removed – low priority/risk  Removed – low priority/risk  Deferred to 2016/17  Draft issued – further work required to finalise so carried forward to 2016/17  Externally audited</p>
<p><b>Children services:</b></p> <ul style="list-style-type: none"> <li>• Effectiveness, improvement and contract management</li> <li>• Education Services (LEA functions provided by the council)</li> </ul>	<p>Incorporated into planned 2016/17 audits    Incorporated into planned 2016/17 audits</p>
<p><b>Adult Social Care:</b></p> <ul style="list-style-type: none"> <li>• Care Act implementation</li> <li>• Response Service</li> <li>• Non-residential charging</li> <li>• Deputyships &amp; Appointeeships</li>   <li>• End to End Operating Model</li> <li>• Resource Allocation &amp; Support planning</li> </ul>	<p>Removed - low priority/risk  Incorporated into 2016/17 audit  Carry forward to 2016/17  Commended – further work required so carry forward to 2016/17  Carry forward to 2016/17  Carry forward to 2016/17</p>
<p><b>Schools:</b></p> <ul style="list-style-type: none"> <li>• County Bridge</li> <li>• Delves Infants</li> <li>• Elmwood</li> <li>• Lane Head</li> <li>• Pool Hayes</li> <li>• Short Heath Federation</li> <li>• St. Anne's</li> <li>• St. Francis</li> <li>• St. Joseph</li> <li>• St. Peters</li> <li>• Whetstone Fields</li> <li>• Whitehall Lane</li> <li>• Rowley View Nursery</li> </ul>	<p>Reprioritised to 2016/17</p>

Internal audit achieved 76% of the audit plan in 2015/16 including all key financial systems and high priority/risk areas.

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