

Internal Audit Annual Report 2023/24



1 *Introduction*

1.1 Our internal audit work for the period from 1 April 2023 to 31 March 2024 was carried out in accordance with the internal audit plan. The plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the council's governance, risk management and control processes. In this way, our annual report provides one element of the evidence that underpins the Annual Governance Statement the council is required to make within its annual financial statements. This is only one aspect of the assurances available to the council as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the council may rely could include:

- The work of the External Auditors (Grant Thornton)
- The result of any quality accreditation
- The outcome of any visits by HMRC
- Other pieces of consultancy or third-party work designed to alert the council to areas of improvement
- Other external review agencies (LGA, CIPFA etc.)

As stated above, the framework of assurance comprises a variety of sources and not only the council's internal audit service. However, internal audit holds a unique role within a local council as the main independent source of assurance on all internal controls. Internal audit is therefore central to this framework of assurance and is required to acquire an understanding not only of the council's risks and its overall whole control environment but also all sources of assurance. In this way, internal audit will be able to indicate whether key controls are adequately designed and effectively operated, regardless of the sources of that assurance. Also, consideration of the council's governance, risk management, ethics-related objectives programmes and activities, and information technology governance is implicit in all internal audit activity.

1.2 The definition of internal audit, as described in the Public Sector Internal Audit Standards is:

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal audit activity is organisationally independent and further details behind the framework within which internal audit operates, can be found in the internal audit charter which is reviewed annually by the Audit and Risk Assurance Committee.

Overall assurance

1.3 As the providers of internal audit to the council, we are required to provide the *Section 151 Officer with an opinion on the adequacy and effectiveness of the council's governance, risk management and control processes. In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide to the Section 151 Officer is reasonable assurance that there are no major weaknesses in the council's governance, risk management and control processes. In assessing the level of assurance to be given, we have taken into account:

- All audits undertaken for the year ended 31 March 2024.
- Any follow-up action taken in respect of audits from previous periods.
- Any significant or fundamental recommendations not accepted by management.
- Any limitations which may have been placed on the scope of internal audit.
- The extent to which any resource constraints may impinge on the ability to meet the full audit needs of the council.
- The council's Strategic Risk Register is regularly presented to the Audit and Risk Assurance Committee

** Section 151 of the Local Government Act requires the council to appoint a suitably qualified officer to be responsible for the proper administration of its financial affairs.*

2 Internal audit opinion

2.1 We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out in paragraph 1.3 above, our opinion is as follows:

2.2 Based on the work undertaken during the year by Internal Audit, alongside that undertaken by other external bodies, we can provide **reasonable assurance** that the council has adequate and effective governance, risk management and internal control processes.

In reaching our opinion, the following factors were also taken into particular consideration:

- We have had unfettered access to all records and employees during 2023/24.
- The need for management to plan appropriate and timely action to implement our and other assurance providers' recommendations.
- Key areas of significance identified as a result of our audit work performed in year are detailed later in this report.
- While stand-alone reviews of governance and risk management are not undertaken, consideration of both these issues are implicit in all internal audit work. Similarly, assurance is gained from the regular review of the council's Strategic Risk Register as presented at meetings of the Audit and Risk Assurance Committee.

Internal audit – limited assurance reports

While not fundamental to the overall control environment, from our internal audit work we gave a 'limited' rating in the following areas and it remains important that the recommendations made in these areas are implemented and improvements made, in a timely manner:

- Climate Change
- Use of Council Procurement Cards
- HRA Contract Overspends
- HRA - Housing Disrepair Claims
- Sandwell Valley/Forge Mill Farm – Cash and Banking

Other Key Sources of Assurance

Since 2021 the council has received a number of critical external reviews alongside receiving Statutory Directions from the Secretary of State for Levelling Up, Housing and Communities, all of which passed comment on issues identified within the council's governance arrangements. This included three statutory recommendations made by the External Auditors. The recommendations made from these sources were incorporated into an agreed council wide Improvement Plan, progress against which was monitored through a number of routes including the Audit and Risk Assurance Committee.

At the Cabinet meeting in March 2024, it was reported that following the latest Grant Thornton review in October 2023, the External Auditors were satisfied that the council had made appropriate progress against the three statutory recommendations, and these had been lifted. Also, at the same Cabinet meeting it was noted that following the latest report to the Secretary of State in December 2023, government ministers concluded that the Statutory Directions would be lifted, and the council has now come out of intervention as a result of the improvements that had been made.

Delays in the Statement of Accounts (and accompanying Annual Governance Statements)

Across the local government sector there have been well publicised delays experienced in the finalising of council's Statement of Accounts for some time now. At the time this report was produced, the sign-off of the council's 2021/22 Statement of Accounts was nearing completion, and the 2022/23 Statement of Accounts were outstanding. This will also have an impact on the 2023/24 Statement of Accounts.

The delays in the preparation of the Statement of Accounts also results in the council not yet being in a position to receive each years accompanying External Audit Annual Reports setting out the External Auditors observations, findings and recommendations. It similarly impacts upon the production of the council's Annual Governance Statement for each year. Therefore, such documents for 2023/24 were not available in order to help inform this annual report at the time it was prepared.

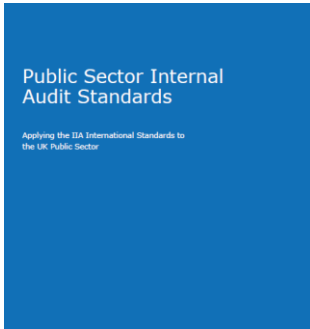
Internal Audit's role in fraud investigations

During the year, a proportion of internal audit time was spent working with the Counter Fraud team on a range of fraud investigations. The outcomes of key investigations are reported where appropriate, separately to the Audit and Risk Assurance Committee through their Counter Fraud Update Reports.

Key risks the council faces

The key risks the council faces in delivering its outcomes are captured in a Strategic Risk Register which is updated as and when the risk profile of the Council changes and is reported to the Audit and Risk Assurance Committee on a regular basis.

3 Performance of the audit service



Compliance with the Public Sector Internal Audit Standards

The internal audit service follows the Public Sector Internal Audit Standards, and the Code of Ethics that form part of the standards, as laid out in the internal audit charter approved by the Audit and Risk Assurance Committee. The quality assurance and improvement programme self-assessment has identified no major non-conformances with these standards and therefore the internal audit activity has conformed with the international standards for the professional practice of internal auditing. An independent validation of the self-assessment process is being arranged for later this year.

Audit plans

Indicator	Actual
Audit Plan produced in advance of the year to which it relates (i.e. prior to 1 April 2024)	Yes - approved by Audit and Risk Assurance Committee at its meeting in February 2024.

Recommendations

Indicator	Actual
90% of 2023/24 recommendations accepted by council management (where a response has been received)	100%

Relationships

Indicator	Actual
Feedback obtained from report recipients	No negative comments received
Satisfaction of Audit and Risk Assurance Committee members is good	No key issues have been flagged during the year

Reviews by other agencies

Indicator	Actual
Consideration of internal audit work by external audit	No issues raised
Outcome of external reviews by other agencies	No such reviews for 2023/24

Staffing

Indicator	Actual
% of Audit Services' employees professionally qualified (target 33%)	42 %

4 *Summary of work completed*

Where appropriate, a detailed written report and action plan is prepared and issued for every internal audit review. The responsible officer will be asked to respond to the report by completing and returning the action plan. This response must show what actions have been taken or are planned in relation to each recommendation. If the recommendation is not accepted, this must also be stated. We are responsible for assessing whether the response is adequate.

Audit reviews completed in 2023/24

The following tables below list all the reports issued by internal audit during 2023/24, alongside their original Assessment of Assurance Need risk score, the number and type of recommendations made, whether those recommendations have been accepted and an overall level of assurance for each review. Where appropriate each report we issue during the year is given an overall assurance opinion based on the following criteria:

Substantial	Reasonable	Limited	No Assurance
A robust framework of controls ensures objectives are likely to be achieved and controls are applied continuously or with only minor lapses.	A sufficient framework of key controls for objectives to be achieved but the control framework could be stronger, and controls are applied but with some lapses.	A risk of objectives not being achieved due to the absence of key internal controls and a significant breakdown in the application of controls.	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified.

Summary of internal audit work completed for the year 2023/24

Auditable area	Assessment of Assurance Need	Recommendations				Level of assurance
		Fundamental	Significant	Merits attention	Total	
Reported previously:						
Climate Change	Medium	1	2	-	3	Limited
Use of Council Procurement Cards	Medium	2	5	-	7	Limited*
Housing Benefits	High	-	1	1	2	Reasonable
Business Continuity	Medium	-	3	-	3	Reasonable
Temporary Accommodation	Medium	-	4	1	5	Reasonable
Mayors Charity	N/A	-	2	2	4	Reasonable
Waste Management	Medium	-	2	-	2	Reasonable
Accounts Receivable	High	-	-	-	-	Substantial
NNDR	High	-	-	1	1	Substantial
Riverside Leaseholders, follow-up	N/A	-	-	1	1	N/A
Riverside Method Statements	N/A	-	-	-	-	N/A
Direct Payments	High	-	1	1	2	Reasonable
Council Rents	High	-	1	1	2	Reasonable
Treasury Management	High	-	-	2	2	Substantial
Council Tax	High	-	-	-	-	Substantial
School audits reported previously:						
Meadows	N/A	-	2	3	5	Reasonable

Auditable area	Assessment of Assurance Need	Recommendations				Level of assurance
		Fundamental	Significant	Merits attention	Total	
Abbey Infant	N/A	-	1	-	1	Substantial
Abbey Junior	N/A	-	1	-	1	Substantial
Sandwell Community School Grant Certification	N/A	-	-	-	-	N/A
Reported for the first time:						
Sandwell Valley/Forge Mill Farm Cash and Banking	Medium	-	4	-	4	Limited
HRA - Contract Overspends	Medium	4	8	1	13	Limited
HRA - Housing Disrepair Claims	Medium	2	5	-	7	Limited
Budgetary Control	High	-	2	-	2	Reasonable
Accounts Payable	High	-	3	-	3	Reasonable
Main Accounting System	High	-	1	1	2	Reasonable
Reports issued in draft (provisional opinions)						
Voluntary Sector Support	Medium	-	tbc	tbc	tbc	Reasonable
Payroll	High	-	tbc	tbc	tbc	Reasonable

* Subsequent analysis following recommendations put in place has shown improvements in compliance with the council's Policy for the use of Procurement Cards.

All recommendations made in our reports were agreed and accepted with relevant council managers.

Summary of Limited Assurance Reports

Climate Change (first reported to the Committee in November 2023)

Climate Change is recognised as a key risk on the council's Strategic Risk Register. As part of the emerging climate crisis the council produced a Climate Change Strategy 2020-2041, setting out the actions that needed to be taken in order to meet the target of net zero carbon emissions for the council in 2030 and for the whole of the borough in 2041. A Climate Change Action Plan accompanied the strategy, setting out a wide range of actions, responsible areas and the timeframe. Similarly, a range of governance arrangements including a Partnership Board and Member Group were established to have oversight on climate change.

However, our report noted that the governance arrangements were not operating as expected, and the actions from the plan were not being clearly monitored. This had resulted in the lack of a clear and cohesive approach to delivering the Climate Change strategy.

Since our report we understand that the governance processes are now operating with the Climate Change Board being held bi-monthly, Members Steering Group held quarterly and an annual update to be taken to Cabinet (currently scheduled to be February 2025) to provide an overview of the strategy delivery. This is all underpinned by the Climate Change Action Plan Monitoring Tool which has been developed to translate the actions detailed within the strategy/action plan into tangible deliverables. This is managed by the Climate Change Team and ensures accountable persons are allocated to each workstream allowing these to be approximately tracked and monitored and forms the basis of the meetings mentioned above.

Steps are also in place to refresh the governance arrangements due to the recent changes to both Leadership Team and elected Members. This will include refreshed Terms of Reference for the Climate Change Board, an updated membership for the Climate Change Board, and updated membership for the Members Steering Group.

Use of Council Procurement Cards (first reported to the Committee in November 2023)

Our report noted a number of non-compliances with the council's policy on Procurement Cards. This included (over a 12 month period) a significant number of transactions that had not been approved on the SDOL system, transactions whereby a receipt for the purchase had not been uploaded to the system, cases where an account code had not been assigned to a purchase on SDOL by the cardholder and transactions where a description of what the purchase was for, had not been provided/entered onto the system.

Following our report, we obtained and reviewed later data provided by Procurement, and noted that in a more recent four-month period there had been a significant improvement in the processing of payments made through Procurement Cards with a significantly smaller number of transactions not complying with the council's policy.

HRA - Contract Overspends

We noted a number of issues of non-compliance with regards to the Council's Procurement and Contract Procedure Rules, and the Public Contract Regulations, alongside a poor level of budget and contract monitoring at both an operational and senior manager level. This included the lack of a planned procurement process including evaluating options, monitoring total

contract value and continuing to purchase goods and services following the expiry of existing contracts, and from suppliers with whom the council did not have a contract for. At the time of our review, remedial action had started to be put in place and a report was taken to Cabinet for the approval of a number of contract extensions and to commence further procurement exercises.

HRA - Housing Disrepair Claims

Our review noted a range of issues including historically poor control over the handing of housing disrepair claims, including the lack of monitoring, action taken to remedy them and the significant financial impact this could have on the council. There also appeared to have been a lack of recognition or urgency in tackling these issues, against the backdrop of an increased national profile and significant rise in such cases. At all stages of the process, claims had not been processed or dealt with, within legally required timescales, leaving the council open to the risk of ever-increasing compensation costs. This would also result in a negative impact upon residents living conditions by not addressing key areas of repair work within reasonable time frames, and the increased risk of complaints and ombudsman involvement.

The council has recently appointed a new Executive Director of Place who has identified the issues of contract overspends and addressing housing disrepair claims as urgent and high priority issues, and work has commenced to address both.

We understand that in terms of contracts overspends, new processes have been adopted in order to ensure that cost estimates are robust and realistic and that budget/funding decisions are made in accordance with the councils constitution and contract standing orders. Expenditure and cost control are of critical importance and contract management and financial reporting processes have been reviewed in order to prevent overspends and address unavoidable cost overruns where they occur.

With regard to housing disrepair, new processes are being developed which seeks to expedite responses to potential disrepair and determine the extent and form of remedial works and how this is prioritised to ensure compliance with regulatory standards, adequately addresses disrepair and ensures a safe living environment for tenants.

New software will be procured to better monitor compliance with the relevant regulatory requirements and stock condition surveys have been commissioned and are in progress, to provide detailed information on stock condition. This will assist to enable better planning of maintenance programmes in future and thus ensure that cases of disrepair are avoided by pre-emptory maintenance programmes. This will provide assurance that all council homes continue to achieve the appropriate regulatory standards for social housing providers.

It is intended that relevant reports will be submitted for approval to Cabinet and that regular updates are provided to the Audit and Risk Assurance Committee at future meetings.

Sandwell Valley/Forge Mill Farm Cash and Banking

Sandwell Valley Visitor Centre and Forge Mill Farm have established various income streams and actively seek new opportunities to increase revenue. However, the finance team and the service area were facing challenges reconciling the banking information within the system data. This had led to difficulties in the financial management processes, requiring a closer examination of the reconciliation practices to ensure accurate financial tracking and reporting.

It was later identified that the difficulties in reconciling banking's to the systems data was as a result of both Sandwell Valley and Forge Mill Farm undertaking daily inputs of income to the ledger, but only banking weekly. Therefore, it was necessary to match multiple ledger entries to one bank deposit in order for them to reconcile.

There was scope for improving the storing and monitoring of the card payment devices at both sites. A number of the devices that were in use had been borrowed from Libraries resulting in the income not being correctly aligned.

Following our review, work continues to be undertaken by the service area on the correct reconciliation of card payments.

Summary of other issues arising from reviews undertaken during the year

Housing Benefits (reported to the Committee in November 2023)

We undertook a review to ensure that there were adequate controls in place regarding the payment of housing benefits. As part of monitoring checks, the Benefits Team should examine the validity of claims that are over £1,500. However, it was noted that this check had yet to be introduced - management has agreed to now introduce this check.

Business Continuity (reported to the Committee in November 2023)

We undertook an audit review of the business continuity arrangement in order to provide assurance that suitable guidance was available, and training was provided to officers responsible for producing the business continuity plans. This included how the council monitors, assesses and reports on business continuity plans, compliance with legislation, internal requirements and good practice. We noted instances where there was no record of training provided for officers listed as a 'Plan Owner' or 'Lead Officer' and a review of the training log highlighted that a number of officers training, or participation in related exercises, had been over three years ago. Also, certain officers on the log had since left the council. We also found instances where plans had not been updated in the last 12 months and cases where plans had not been exercised/tested for some time.

Temporary Accommodation (reported to the Committee in November 2023)

Our review of temporary accommodation highlighted late consideration of the need for continuing service provision as the existing contract was ending. The subsequent exemption report for Temporary Accommodation for the Provision of Hotel and Bed and Breakfast accommodation had not been approved in line with the council's Procurement Rules, and a further extension was also later sought for the exemption. We also noted significant use of procurement cards on emergency accommodation, with officers not always following the council policy with regards to documenting such purchases. There was also a need for applicant casefiles held on the Housing Solutions system (Jigsaw) to be regularly reviewed for consistency to ensure sufficient information was recorded to evidence the decision-making process, along with a need to strengthen the monitoring arrangements on applicant case file accounts with regard to arrears management in order to help facilitate the recovery of costs where applicable.

Mayors Charity (reported to the Committee in November 2023)

We undertook a review of the arrangements for the Mayors Charity in order to ensure that it had a robust framework. The Charity had been fairly dormant throughout much of lockdown, but activities were likely to pick up again in the near future. We noted that there needed to be a more formal receipting process to be put in place regarding any donations received, an officer who had left the council needed to be removed as an authorised signatory list for the account, and the bank account used for the fund should be changed to one with the council's current bank.

Waste Management (reported to the Committee in November 2023)

The Waste Management Contract is for a period of 25 years, began in 2010 and expires in 2035. The contract was awarded to Serco to help the council modernise and make improvements to waste, recycling and street cleaning across the borough and to deliver the Council's Waste Improvement Plan. The contract is performance based and measured against 34 Key Outcome Targets (KOTs) with Serco responsible for the design, monitoring and reporting on performance (cost, quantities and quality) in conjunction with the council. Waste Services also formed one of the key lines of enquiry from the 2021 Grant Thornton Value for Money Governance Review.

In recent times, steps have been taken by the council to be more pro-active in ensuring that the necessary information is submitted in accordance with the Terms and Conditions of Contract. Our review noted that the monitoring actions put in place by the council were yet to be fully embedded, with slight delays in some of the earlier reporting, a need to strengthen the robustness of the process for sign-off by the council when new vehicles have been received, together with consideration of the implications for the council of any slippage in the vehicle delivery programme.

Direct Payments (reported to the Committee in February 2024)

The purpose of the review was to provide assurance that Direct Payments were being effectively administered, and to ensure the required outcomes were being achieved. The review focussed upon the roles and responsibilities relating to the finance element of the direct payment process within the council.

In a previous review of this area we noted a backlog of a large number of reviews of client accounts, which help verify if the client is using the direct payment for its intended purpose. We are pleased to report that since our last review the backlog of reviews had been cleared. The client's direct payment accounts are now on target to be examined after an initial six months of operation, where they will then be risk rated according to operating factors. All high and medium risk cases then receive more frequent reviews, with all accounts receiving at least an annual review.

In addition, a new Direct Payment policy had been approved and implemented. However, we did note that on occasions incomplete or unclear documentation under which capacity appointments were being made was held. Appointments can be made under an authorised or nominated capacity to clients' accounts. Appointments made under an authorised capacity relate to clients with eligible care and support needs who lack mental capacity, whilst appointments made under a nominated capacity relate to an individual who receives care and has mental capacity but have chosen a specified individual to help manage their direct payment account. Adult Social Care is responsible for the completion of the relevant documentation with the client /representative as part of the set-up of the direct payment facility.

Council Rents (reported to the Committee in February 2024)

The council manages approximately 27,300 council properties. The rental income from which is used to fund the management and maintenance of the council's housing stock and other housing services. Our review included the reconciliation of the rent roll (which identifies the council's housing stock/property records), reconciliation of the rents system to the cash receipting system, changes to housing stock, the annual calculation of the rent debit and the receipt of rental income.

Social rents are set using a government formula which calculates a 'formula rent' for each property and we noted that on occasions properties can be found to have small rent charges that differed to the social formula rent calculated for similar properties. This has been flagged with the team and they continue to endeavour that the social formula rent is applied wherever possible, in particular when new tenancies are entered into.

Budgetary Control (reported to the Committee for the first time)

Budgetary Control is a vital aspect of financial management, involving the process of formulating the annual budget, overseeing its implementation, and ensuring its alignments with the council's objectives and goals. It serves to allocate resources, reflect the legislative priorities and policies and control how much each directorate may spend. A significant amount of progress had been made over the last 12 months with regards to strengthening the budgetary control processes across the council. This included the approach to budget setting for 2024/25 and in producing more regular and useful budget monitoring information for both budget holders and Members.

The introduction of Oracle Fusion will see a significant change in the way that many of the council's finance systems and processes operate. A successful implementation will further enhance the council's budgetary control processes.

Accounts Payable (reported to the Committee for the first time)

The council receives invoices from suppliers for goods, services or materials provided and payments are made for these through the Accounts Payable system. The payment process is operated by the Accounts Payable team, with reconciliations relating to accounts payable being carried out by Finance. Responsibility for raising orders and confirming receipt of goods rests with the individual service areas.

We identified that a review of access rights did not appear to be undertaken at six monthly intervals and we understood that due to system limitations, an explicit reconciliation of changes made to supplier details against the number of amendment forms received from suppliers had yet to be implemented.

A request was made to the systems team to run the access rights report to enable officers to undertake this check and the team is exploring the options in the new Oracle Fusion system of being able to run a report which shows the number of changes that have been made to suppliers.

Main Accounting System (reported to the Committee for the first time)

The Financial Management System or Main Accounting System is the cornerstone of the council's accounting practices. Situated within the General Ledger module (GL) of the Oracle Financial system, this system plays a pivotal role in the council's financial operations.

With the imminent implementation of Oracle Fusion, the review was limited to the follow up of the previously agreed actions where it was noted that two of the three outstanding recommendations were yet to be fully implemented. These related to the quarterly update of the contracts register and the provision of guidance notes to budget holders. With the 'go live' of Oracle Fusion imminent, it is acknowledged that these agreed actions may be subject to change once the new system has been embedded and operating practices have been revised.

School Audits

We have undertaken a review of a sample of schools in order to assess whether they had adequate governance, risk management and control processes in place to ensure that financial management and governance arrangements were robust. All schools reviewed were given an assurance rating of either substantial or reasonable which are positive outcomes.

Other areas with Internal Audit involvement

Annual Governance Statement

We assist in the preparation of the Annual Governance Statement which accompanies the council's Statement of Accounts and is produced to comply with the requirements of the Accounts and Audit Regulations.

Internal Audit Charter

We undertake and present to the Audit and Risk Assurance Committee an annual review of the Internal Audit Charter. The latest version was presented and approved at the November 2023 meeting of the Committee.

Audit and Risk Assurance Committee – Terms of Reference

We complete a regular review of the Audit and Risk Assurance Committee Terms of Reference. The last version was presented and approved at the February 2024 meeting of the Committee.

Internal Audit Plan 2024/25

We submitted the Internal Audit annual plan for 2024/25 to the Committee for approval at the February 2024 meeting.

Audit and Risk Assurance Committee Annual Report

Assistance was provided in the preparation of the Annual Report of the Chair, on the work of the Committee.

West Midlands Audit Contract Group

We attend a bi-annual group meeting with other West Midlands councils, with the purpose of discussing new issues within procurement and contract monitoring and the sharing of best practice.

Counter Fraud

The council's Counter Fraud Unit sits within internal audit and is responsible for, amongst others, investigating assigned cases of potential fraud, running a series of raising fraud awareness activities and taking part in all national anti-fraud initiatives and benchmarking activities. Full reports on the work of the Counter Fraud Unit and the relevant investigatory work undertaken by Internal Audit are presented separately to the Audit and Risk Assurance Committee.

Wider client base

Through a shared service arrangement, the council's Audit Services also provide the internal audit role for the following, and each of these have their own Audit Committee, or equivalent, to which our work is reported:

- Sandwell Leisure Trust
- Sandwell Children's Trust
- West Midlands Fire Service