

Draft Internal Audit Annual Report 2024/25



1 Introduction

- 1.1 Our internal audit work for the period from 1 April 2024 to 31 March 2025 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 relevant external review agencies such as the LGA, Ofsted, 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 2025.
- 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.

However, the majority of our key financial systems work this year was undertaken during the transition period between SBS and Oracle Fusion. This did temporarily see an increase in the number of audit issues being flagged and recommendations being made. As issues arose during the transition period, ongoing action was being undertaken between the Finance and Oracle Fusion support teams in order to remediate them.

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

- We have had unfettered access to all records and employees during 2024/25.
- 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:

- Heritage Assets (including Civic Regalia)
- HRA – Capital Budgets

- Aids and Adaptions
- Accounts Receivable
- Use of Council Procurement Cards
- Sandwell Community School
- Capital Accounting

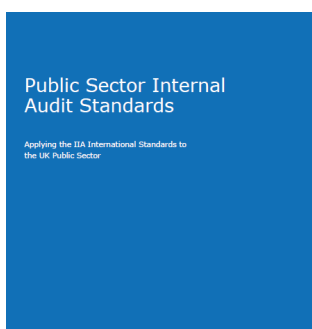
Internal Audit's role in fraud investigations

During each year, a proportion of internal audit time would be 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 each quarter or 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

During the year the internal audit service followed 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.

From 1 April 2025 the Public Sector Internal Audit Standards have been superseded by the new Global Internal Audit Standards within the framework set out by CIPFA in their Application Note – Global Internal Audit Standards in the UK Public Sector.

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, taking into account the new standards, will be 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 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 2024/25 |

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 2024/25

The following tables below list all the reports issued by internal audit during 2024/25, alongside their original Assessment of Assurance Need risk score, the number and type of recommendations made 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 2024/25

| Auditable area | Assessment of Assurance Need | Recommendations | | | | Level of assurance |
|---|------------------------------|-----------------|-------------|------------------|-------|--------------------|
| | | Fundamental | Significant | Merits attention | Total | |
| Reported previously: | | | | | | |
| Heritage Assets (including Civic Regalia) | Medium | 3 | 8 | - | 11 | Limited |
| HRA – Capital Budgets | High | 2 | 7 | - | 9 | Limited |
| Cotterills Farm, Rent Management System | NA | - | 1 | - | 1 | Reasonable |
| Riverside, Environmental Challenge Fund | Medium | | 3 | 1 | 4 | Reasonable |
| Riverside, Gas Certificates | Medium | - | - | - | - | Substantial |
| Riverside, Rents follow up | Medium | - | 1 | - | - | N/A |
| Disabled Facilities Grant, Follow up | NA | - | - | 3 | 3 | N/A |
| Highways, Taylors Lane | Medium | - | 3 | 1 | 4 | Reasonable |
| Sacred Heart Primary School | NA | - | 3 | 3 | 6 | Reasonable |
| St Mary Magdelene Primary School | NA | - | 3 | 4 | 7 | Reasonable |
| Highways Traffic Signals Grant Claim | NA | - | - | - | - | N/A |
| Holiday Activities and Food Grant Claim | NA | - | - | - | - | N/A |
| Council Tax | High | - | - | 1 | 1 | Substantial |
| NNDR | High | - | - | 1 | 1 | Substantial |
| Benefits | High | - | - | 1 | 1 | Substantial |
| Climate Change follow up | NA | - | - | - | - | N/A |
| Reported for the first time: | | | | | | |
| Members Allowances | - | 1 | 1 | 2 | | Reasonable |
| Aids and Adaptations | - | - | 3 | - | 3 | Limited |
| Housing Rents | High | - | - | - | - | Substantial |
| Sandwell Community School | - | - | 12 | 4 | 16 | Limited |

| Auditable area | Assessment of Assurance Need | Recommendations | | | | Level of assurance |
|---|------------------------------|-----------------|-------------|------------------|-------|--------------------|
| | | Fundamental | Significant | Merits attention | Total | |
| Accounts Receivable | High | - | 6 | 1 | 7 | Limited |
| Use of Council Procurement Cards | - | 1 | 6 | - | 7 | Limited |
| Capital Accounting | High | - | 2 | 1 | 3 | Limited |
| Treasury Management | High | - | 4 | 8 | 12 | Reasonable |
| Reports issued in draft (provisional opinions) | | | | | | |
| Accounts Payable | High | - | 3 | 7 | 10 | Reasonable |

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

Summary of Limited Assurance Reports reported for the first time

Use of Council Procurement Cards

All spend via procurement cards must adhere to the Council's Policy on Procurement Cards. The purpose of the use of procurement cards is to provide flexibility in service delivery whilst ensuring value for money is achieved. The bank's Smart Data Online (SDOL) system is used to upload information by the card holder and the budget holder to authorise payments.

In October 2023, we issued a limited assurance report on the use of Council Procurement Cards. At that time, we found that there were a significant number of unapproved transactions, transactions without a receipt, where account codes had not been entered and a lack of clarity around descriptions for the purchases. This was set against the backdrop of a lack of clear strategic oversight regarding the control and monitoring of procurement cards. This review followed up the recommendations that were made and agreed at that time.

We found that insufficient action had been taken to implement the recommendations from our previous review. We noted that while some action had been taken in places, there was still a significant number of non-compliances. This included transactions not being approved on the SDOL system, not being reviewed by the cardholder, receipts not being uploaded to the system and a lack of clarity on descriptions for what the payments were for. There was also a lack of monitoring across the Council leading to a lack of awareness regarding the instances of non-compliance.

While there was scope for improved monitoring and action within Procurement, it is important that directorates also take responsibility for ensuring that their officers who either hold a procurement card, or are responsible for authorising them, are following the requirements of the policy.

Aids and Adaptions

It was understood within the service area that there were significant delays in the current processes, and we were asked to independently review this in order to confirm the accuracy of this understanding. This was in advance of the introduction of a new and improved process that was to be put in place in order to improve the timeliness of processing applications. We noted that there were delays occurring in the initial processing stages of referrals where scoping, approval and conversion to contactor work orders take place, and with contractor delivery of major adaptations including missed KPI targets. The cumulative effect of this was a lengthy delay for Service Users before receiving their agreed adaptations.

Sandwell Community School

A review of the governance arrangements and financial controls at Sandwell Community school was undertaken at the request of the Assistant Director - Education Services. We found a number of issues around poor governance and financial control including the review and establishment of the terms of reference/delegations over the period of review was not sufficiently robust, a formal scheme of appointment delegation had not been set and agreed by governors, improvements and clarity was required over aspects of the governing body minutes.

We also noted that the Business Interest Register was not up to date for governors and uploads to the website were out of date, there was insufficient evidence to determine whether interview panels were properly formed, poor processes with regards to the authorisation of orders and certain spending, which exceeded the Executive Headteachers £10,000 delegated approval limit and was not approved by the governing body amongst others.

Accounts Receivable

As with most of our key financial systems work this year, this review was undertaken during the transition period between SBS and Oracle Fusion. Therefore, this resulted in a number of one-off matters arising, many of which had already been brought to the attention of the Oracle

Fusion support team and who Finance were pro-actively working with in order to rectify them. This included monthly reports for management (statistic reports) having yet to be able to be produced in sufficient detail, the reconciliation of accounts receivable to the general ledger had been delayed and the debtor's team had yet to be able to generate sufficiently detailed aged debtor's reports.

Also, at the time of review there were a number of payments in Oracle Fusion that had yet to be properly allocated, which could potentially lead to delays in updating accounts and managing debts.

Capital Accounting

It was recognised that Capital Accounting in particular, had experienced a number of challenges following the introduction of Oracle Fusion in relation to data migration, system functionality and the approvals process. Ongoing system issues had also placed an additional burden on the Finance Team. Our review noted that incorrect data mappings during migration had led to data inconsistencies and errors and the design for capital projects provided insufficient approval limits as multiple cost centre approvers were required.

Reported previously to the Audit and Risk Assurance Committee

Reported in February 2025

Climate Change – follow up

Progress had been made in implementing the previously agreed actions, with a strengthening of many of the processes in place. However, it was acknowledged that the service was still in the process of embedding the new governance, monitoring and reporting arrangements.

A Climate Change report was presented in November 2024 to the Strategic Leadership Team incorporating an update on the refresh of the Climate Change Board terms of reference and new membership structure, alongside a wider update on the progress being made.

There were also plans to update the Council's Climate Change Strategy and Action Plan, including timelines for achieving goals and an increased focus on costs.

Benefits

The Council administers housing benefits, which provides financial support designed to assist individuals with their rent costs. These benefits are awarded based on the claimant's financial circumstances. The Benefits Team use Northgate I-World to manage all claim information. In the previous year, the Benefits Team handled approximately 13,000 housing benefit claims, serving both Council tenants and those in private accommodation.

We made one recommendation where the Enterprise system will calculate each claimants benefit entitlement. If the calculation is over £1,500 then an additional form is generated as part of the checking process. This is then subject to a separate review and if it is over £5,000 it is also checked by a further senior officer. Both these officers' names are captured on the form. However, the name of the officer undertaking the initial calculation was not recorded and we recommended that going forward this information should also be captured.

Council Tax

All domestic properties are subject to Council Tax, although certain exemptions can be granted such as Single Person Discount. The I-World system generates daily reports that provide a detailed overview of receipts, and the cash control team subsequently undertake a reconciliation process i.e. comparing the payments recorded in the income receipting system (ICON) against those logged in the I-World system.

The reconciled figures are then entered into a monthly reconciliation sheet. This serves as a comprehensive record, tracking the daily alignment between the two systems. We noted a couple of occasions where there had been slight delays in the signing of these reconciliations.

Reported in December 2024

Heritage Assets (including Civic Regalia)

The Council is the custodian of many valuable and important heritage assets and items of civic regalia which are held at many sites located across the borough. As part of our review a number of locations across the borough were visited.

We noted that there was a lack of a clear strategy and cohesive approach to the management of the Council's heritage assets alongside poor collections systems in place. There was no clear, accurate and up to date heritage asset inventory lists with various differing methods, types and versions of such records and lists in use. There was also the lack of regular and/or scheduled stock checks and valuations on heritage asset items.

This lack of adequate record keeping impacts upon the valuations available and assigned for both accounting and insurance purposes.

It also appeared that a number of items held in storage may not have met basic standards in terms of the environment for the safe storage and security of such items.

The Council also has a number of high-value civic regalia items. We noted that, similar to the Council's heritage assets, there was no full and up to date asset inventory list documenting all of the civic regalia, and where it was held. There were also high value items that were not been included on such lists. This would again impact upon the values assigned for both accounting and insurance purposes. We also noted a number of issues with regards to where and how items were being held and transported.

HRA – Capital Budgets

Our review focussed upon the 2023/24 Capital Budget, we noted that there had been a significant amount of change at a senior management level within Housing, the Procurement Team and within areas of Finance. Many of the individuals who played key roles in developing the housing capital programme were no longer part of the Council.

There was also the absence of a centralised repository for key working documents relating to the capital programme, coupled with the lack of any detailed audit trail. This made the review difficult as there was a lack of corporate history and poor audit trails to support the governance and decision making regarding the setting and agreement of capital budgets.

It appeared that the development of the capital programme as a corporate process had no real challenge over a significant period of time. This left the remaining staff in both Finance and Housing with the task of understanding the present status of each capital scheme, impacting upon their ability to make well-informed decisions regarding current financial positions.

Our review also found a pattern of live capital programmes expanding both beyond their initial specifications and thereby their allocated budgets. Again, at the time there was no real evidence of explicit challenge to this activity.

We are aware that since this time, there has been a significant amount of action taken in order to improve the budget control processes within Housing, alongside the wider Housing Transformation Programme.

Cotterill's Farm – Rent Management System

A TMO is a mechanism that allows Council tenants and leaseholders collectively to take on responsibility for managing the home they live in. This approach empowers residents to have a greater say and involvement in the maintenance and upkeep of their living environment.

Cotterill's Farm TMO was established in 1997 and became operational in 1998. The TMO provides housing related services to approximately 250 properties and they are primarily funded through the management of fees paid by the Council under the agreement.

The purpose of our audit was to deliver a level of assurance that Cotterill's Farm maintains accurate rental charging, income and arrears information to account correctly housing rents. We noted that while there had been some delays in pursuing and monitoring rent arrears due to absences and staffing shortages, at the time of our review more timely action had again recommenced.

Riverside, Environmental Challenge Fund

The Environmental Challenge Fund sets specific criteria for funding eligibility, and it aims to support the regeneration of the two Harvills Hawthorn and Millfields estates areas within the borough. Projects seeking funding must align with the criteria of contributing to reducing crime and anti-social behaviour, improving the wider condition and appearance on the two estates.

Our review noted that projects were not always presented to the Neighbourhood Monitoring Panel and did not always explicitly demonstrate how certain projects demonstrated the benefits for the community on the two estates. Also, that on occasions verbal agreements were being used when processing invoices, prior to receiving written approval.

Highways Maintenance, Taylors Lane

Highways Maintenance encompasses a diverse range of tasks essential for ensuring road safety and infrastructure integrity. This work includes, but is not limited to, addressing missing, dislodged, or broken manhole covers, repairing damaged street furniture and pedestrian guard rails, maintaining non-illuminated signs and bollards, fixing potholes, eliminating footway trip hazards and managing brook courses. Such activities are crucial for maintaining the functionality and safety of the highways, providing a reliable and secure environment for all road users.

Our review recommended that highways operatives should seek to move away from a paper-based system to a system similar to that used within the repairs team i.e. the use of PDA's (Personal Digital Assistant devices). We did note that this was currently being trialled. Also, that the paper-based system highlighted gaps in documentation in the defect reporting system, in some cases without the necessary paperwork, photographic evidence and supervisor sign offs. Finally, when operatives were working out of hours, standby payments and overtime claim forms were not always being signed-off by the relevant manager.

Follow up of previous recommendations

With regards to ensuring the implementation of previous internal audit recommendations, where not already included in current year audits we have completed the following stand-alone follow-up reviews:

| Review | Recs made | Actioned | Comments at the time of our review |
|----------------------------------|-----------|----------|--|
| Disabled Facilities Grant | 9 | 6 | Three were still in progress |
| Riverside Rents | 4 | 3 | The outstanding recommendation is to be revisited at our next review |
| Climate Change | 3 | 1 | Two were still in progress |
| Use of Council Procurement Cards | 7 | 1 | Further details of these issues are included above |

If an auditable area is risk assessed as requiring an annual review, then previous year recommendations are automatically followed up at the time of the next review. Where an annual review is not required, then efforts are made to ensure that key recommendations are revisited within a 12-month period.

Other areas with Internal Audit involvement

Schools

We continued to undertake our schools programme of reviews to assess whether schools have adequate governance, risk management and control processes in place to ensure their financial management arrangements are satisfactory and promote an effective and efficient use of available resources.

Grant Claims

For a variety of grant claims, we are required to provide assurance that funds have been used in accordance with the agreed grant conditions, thus ensuring funding will not have to be repaid. From the reviews completed to date, we have not found any issues of significance and therefore we have concluded that the grant funding appears to have been used appropriately.

Oracle Fusion

A significant part of the audit teams work, particularly in the last quarter of the year was used on the implementation and post go-live of Oracle Fusion, including the accompanying Risk Management Cloud module. Where issues have arisen with regards to the introduction of Oracle Fusion, these have been reported upon separately within each of our key financial system review audits, and as noted earlier in this report.

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.

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 April 2025 meeting of the Committee.

Internal Audit Plan 2025/26

We submitted the Internal Audit annual plan for 2025/26 to the Committee for approval at the April 2025 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