



## **AUDIT SERVICES**

# **ANNUAL REPORT ON INTERNAL AUDIT**

**2020/21**

**Head of Audit Services Opinion on Internal Control within  
Solihull MBC**

**Internal Audit Performance**

**Audit Charter**

**Internal Audit Plan for 2021/22**

## Head of Audit Services – Annual Report 2020/21

### Introduction

1. This Annual Report gives my opinion as Head of Audit Services (HoAS) for Solihull Metropolitan Borough Council (SMBC) on the adequacy and effectiveness of internal control, risk and governance within SMBC. It also summarises the work Internal Audit has performed for the period 1<sup>st</sup> April 2020 through to 31<sup>st</sup> March 2021.
2. It is the duty of the HoAS to give an opinion, at least annually, on the adequacy and effectiveness of internal control, risk and governance. This is based on the adequacy of control observed from completing a selection of audit reviews as documented in the annual Audit Plan and other advice work completed on control systems. The results of investigation work and the work of other internal reviews within SMBC also inform the opinion.
3. The opinion on the adequacy and effectiveness of internal control is used to inform and should be read alongside the wider Annual Governance Statement incorporated into SMBC's Statement of Accounts for 2020/21.

### Background

4. Internal Audit has a legal standing in terms of the Accounts and Audit Regulations 2015 and its mission is *to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.*
5. Internal Audit is a function within the Audit Services Division that provides *an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*
6. In line with the Public Sector Internal Audit Standards (PSIAS), the strategy adopted provides for an unrestricted range of coverage of SMBC's operations. The current Strategy/Terms of Reference (Audit Charter) are detailed at **Appendix A.**

## Audit Opinion

7. My overall opinion for 2020/21 on the adequacy and effectiveness of internal control, risk and governance is 'moderate' assurance. This opinion is formed when taking account of:
- The Council's core financial systems are on the whole working effectively.
  - The assessment of Solihull Community Housing identified 'substantial' assurance overall.
  - A number of areas where control weaknesses were identified in 2019/20 are yet to be rechecked, as management had not implemented all recommendations. Although the Covid situation may have contributed to this, management are still required to ensure their control systems are operating effectively.
  - The Council has sound arrangements in place for risk management and the Annual Governance Statement process.
  - Proven internal fraud, and external fraud against the Council, remained at similar levels to 2019/20.

## Audit Reviews

8. To inform the opinion on the adequacy of internal control, risk and governance a score is allocated to the outcome of each significant review undertaken in the financial year 2020/21. This score is based on a scale of 1 to 5, where a score of 1 suggests the system is performing well to achieve control objectives and 5 suggests unacceptable levels of control exist. **Table 1** below details the level of assurance available.

Score	Assurance Level	Assurance Criteria
1	Full	There is a sound framework of control operating effectively to achieve control objectives.
2	Substantial	The framework of control is adequate and controls are generally operating.
3	Moderate	The control framework is adequate but a number of controls are not operating effectively.
4	Limited	Adequate controls are not in place to meet all the system objectives and controls are not being consistently applied.
5	None	The control framework is inadequate and controls in place are not operating effectively. The system is open to abuse, significant error or loss and/or misappropriation.

**Table 1**

## Head of Audit Services – Annual Report 2020/21

### Audit Work During 2020/21

9. **Core Financial Systems:** In 2020/21, Auditors reviewed and sample tested an increased number of financial transactions created within the key Council Core Financial Systems (CFS) shown in **Table 2** below. Audit Management felt that an increased degree of scrutiny was needed during times of uncertainty and disruption.
10. **Table 2** also shows other non CFS audit reviews completed in 2020/21. Where appropriate and for comparison, the assurance rating for 2019/20 is shown in brackets.
11. We have also issued a number of Audit Memos to Service Areas in 2020/21. These do not carry an assurance score but they capture our findings and, where required, our recommendations in a preventative capacity. Given the Covid disruption, we found Audit Memos can be a faster method for us to report certain findings and to make recommendations on matters that we believe need addressing by Council Managers. We monitor Service Area responses to Audit Memos once issued and, where necessary, escalate to a full audit review if we feel this is needed.

<b>ASSURANCE REVIEWS</b> (CFS = Core Financial System)	<b>Status &amp; Assurance Rating</b>
	<b>Key</b> 1 = Full Assurance 2 = Substantial Assurance 3 = Moderate Assurance 4 = Limited Assurance 5 = No Assurance ** = Draft report
<b><u>Core Financial Systems</u></b>	
Audit Review: Accounts Payable (CFS)	Final Issued – 2 (2)
Audit Review: Accounts Receivable (CFS)	Final Issued – 1 (3)
Audit Review: Bank Reconciliation (CFS)	Final Issued – 1 (1)
Audit Review: Treasury Management (CFS)	Final Issued – 1 (1)
Audit Review: Collection Fund (Council Tax & Business Rates, CFS)	Final Issued – 1 (1)
Audit Review: Housing Benefits (CFS)	Final Issued – 2 (2)
Audit Review: Payroll (CFS)	Final Issued – 2 (2)
Audit Review: AC&S Information Security	Final Issued – 2
Audit Review: Strategic Highways Contract	Final Issued – 2 (3)
Audit Review: Taxi Licensing follow up	Final Issued – 2 (5)
Audit Review: SCH Client Function	Final Issued – 3
Audit Review: Order Allowances follow up	Final Issued – 3 (5)
Audit Review: Homelessness Arrangements	Final Issued – 2
Audit Review: SCH Contract Management	Final Issued – 3
Audit Review: SCH Procurement (follow up)	Final Issued – 3 (4)
Audit Review: SCH Fire Safety	Final Issued – 2 (2)

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Audit Review: SCH Voids	Final Issued – 2
Audit Review: SCH Bank Reconciliation	Final Issued – 1 (1)
Audit Review: SCH Accounts Receivable	Final Issued – 1 (2)
Audit Review: SCH Accounts Payable	Final Issued – 2 (2)
Audit Review: SCH Capital Expenditure	Final Issued – 2 (2)
Audit Review: SCH Housing Rents	Final Issued – 2 (3)
Audit Review: SCH Housing Repairs	Final Issued – 3 (3)
Audit Review: SCH PDR Framework	Final Issued – 4
Audit Review: Open Housing	Final Issued – 2
<b>Other Reviews</b>	
Audit Memo: European Social Fund TA Project	Final Issued
Audit Memo: Everyone Active Payments	Final Issued
Audit Memo: Safer Recruitment	Final Issued
Audit Memo: Small Homes Medication	Final Issued
Audit Memo: AC&S Business Continuity	Final Issued
Audit Memo: Library Banking & Cash Procedures	Final Issued
Audit Memo: Touchwood Rental Income	Final Issued
Audit Memo: Oracle Cloud	Final Issued
Audit Memo: UGC – Lessons Learned Review	Draft Issued

*Table 2*

### **Update on Follow ups for previous Level 4 & 5 areas**

12. We have carried out initial follow up work on the following areas, however, in some cases the service area has not progressed our recommendations sufficiently to enable a follow up review and rescore the area. **The following areas remain at their previous level and should be considered by the Audit Committee reported as such for 20/21.**
- SEND (Level 5) - to follow up in 2021/22
  - Education Placements (Level 4) - to follow up in 2021/22
  - Catering (Level 4) - follow up underway
  - Purchase Cards (Level 4) – to follow up in 2021/22
13. Audit Services now tracks high and medium priority audit recommendations via the JCAD system. In addition, audit recommendations are now also reported at DLT and CLT level on a monthly and/or quarterly basis

### **Audit Services Covid Related Support**

14. Throughout the 2020/21 year Audit Services staff supported SMBC in its financial response to the Coronavirus pandemic. The summary below outlines the support Audit Services has provided.

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15. **Business Grants / Discretionary Grants and Test & Trace Payments** – Audit Services staff supported the Income and Awards and Finance teams by helping to both create payment systems and process Covid related Government Grants to local businesses and citizens of the Borough. In 2020/21, **we helped to process 10,033 payments, totalling £46.1m.**
16. Our involvement with Covid grants also includes auditors checking each payment using specialist data matching software and to date Audit Services have advised management **not to pay 606 applications and this has prevented £5.8m (12.7% of the total paid to date) of public funds being paid erroneously.**
17. In addition to this checking of applications at the prepayment stage, Audit Services staff also undertake the required 10% post-payment verification checks for Test and Trace payments, to ensure recipients of the payments had a salary / income decrease during the self-isolation period.

### School Governance

18. Internal Audit acted as the main contact for the collection, review and support for the mandatory standard for Local Authority maintained schools introduced by the Department for Education (DfE). This included providing guidance to schools about the requirements of the School's Financial Value Standard.

### Governance Advice

19. **Table 3** details other work undertaken or contributions made by Internal Audit in 2020/21 that contribute to the overall level of independent assessment given on the system of internal control, governance and risk management arrangements.

Review Area	Narrative/Outcome
Resources Directorate	<ul style="list-style-type: none"> <li>• Attend the Town Centre Office Accommodation Group.</li> <li>• Attend the 'Oracle Cloud' Board.</li> <li>• Providing advice to Catering on the new tills being used within schools.</li> </ul>
Public Health Directorate	<ul style="list-style-type: none"> <li>• On-Going Advice on a Public Health Contract.</li> <li>• Available to provide advice as requested for the Council's local response to Covid.</li> </ul>
Adult Care & Support Directorate	<ul style="list-style-type: none"> <li>• Attend the 'Liquid Logic' Board.</li> <li>• Attend the Community Wellbeing Board.</li> </ul>

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Economy and Infrastructure Directorate	<ul style="list-style-type: none"> <li>• Attend the Growth and Development Board.</li> <li>• Undertaking safeguarding checks on taxi licensing.</li> <li>• Attend Commonwealth Games Board</li> <li>• Attend Strategic Housing Framework Board &amp; risk advice provided</li> <li>• Attend DLT.</li> </ul>
Children Services & Skills Directorate	<ul style="list-style-type: none"> <li>• Solihull Music Service – Gave advice on cash handling and new system.</li> <li>• Advisory work in respect of a Community Group.</li> <li>• Advice over Covid Free School Meal schemes</li> </ul>
Solihull Community Housing	<ul style="list-style-type: none"> <li>• Quarterly attendance at ELT.</li> <li>• Ongoing attendance at the Audit &amp; Risk Committee.</li> <li>• Advice given in in respect of authorising payments in the Open Housing System.</li> </ul>

**Table 3**

### Counter Fraud and Investigation Work

20. Internal Audit leads SMBC's counter-fraud and corruption work and continues to take a proactive approach to counter fraud. Internal Audit's proactive counter fraud work undertaken in 2020/21, in line with SMBC's Counter Fraud and Corruption Strategy, includes:

#### Single Person Discount (SPD)

21. Internal Audit works jointly with Income & Awards, undertaking ongoing data matching reviews of SPD entitlement, to identify claims made for SPD that do not meet the discount criteria.

#### Social Housing Fraud

22. Internal Audit has a dedicated tenancy fraud investigation resource and we continue to work jointly with SCH to tackle tenancy fraud.
23. In 2020/21, we received 54 tenancy fraud referrals. Our joint work with SCH resulted in a total of 8 council houses recovered and 4 housing applications cancelled.
24. Due to the Covid situation, while referrals and investigations continued throughout

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the 2020/21 year, all council house possession claims were put on hold until June 2021, hence the small number of properties recovered in the 2020/21 year.

### Right To Buy (RTB)

25. Our Counter Fraud and Investigation Team investigate each RTB application received by SCH, for money laundering purposes, to ensure the finance being used to purchase the property is legitimate and to also ensure the applicant(s) is/are living at the property. A stopped application means the property remains in SCH's ownership and the RTB discount is not applied.
26. In the 2020/21 year, we received 80 RTB referrals. Our work in 2020/21 resulted in 45 RTB applications cancelled / rejected.

### Tenancy Applications

27. Our Counter Fraud and Investigation Team also vet all new tenancy applications, as a counter-fraud measure. In the 2020/21 year, we received 93 applications (mutual exchange (29), joint tenancy (19), lodger in occupation (23), relationship breakdown (8) and succession (14)). Of these, 5 cases (all lodger in occupation) resulted in a council house being recovered – these are included in the overall figure of 8 properties.
28. We also notified SMBC's Council Tax team of the extra adult in 4 of the joint tenancy cases to ensure that SPD was cancelled and backdated.

### Audit Investigations

29. Internal Audit's Fraud and Investigation Team continue to detect, investigate and pursue fraud, misconduct and error. 30 audit investigations were undertaken during 2020/21. Outcomes include:
  - A member of staff resigning following fraudulent cash losses in a school. This case was referred for prosecution, with the case heard in March 2021. The individual made a guilty plea, resulting in an 18 week custodial sentence, suspended for 2 years, with costs awarded totalling £6.4k.
  - A referral to HR for a member of staff fraudulently claiming SPD.
  - The termination of an agency worker's employment following conduct-related whistleblowing allegations.

### **Whistleblowing**

30. Internal Audit has responsibility for maintaining the Council's whistleblowing infrastructure and ensuring that issues raised through the Council's Whistleblowing Policy are effectively dealt with. **Table 4** outlines details of issues raised in 2020/21.



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Ref	Issue	Action	Outcome
1	Allegation of poor governance and behaviours in a school	Included in a pre-existing complaint about the school's governance.	Concerns substantiated and Chair of Governors resigned. Case closed.
2	Allegation of tenancy fraud	Passed to investigation team.	Investigation resulted in property recovery. Case closed.
3	Safeguarding concerns	HR notified and issues included in audit review.	Audit memo issued with recommendations made. Case closed.
4	Allegation of a conflict of interest and inappropriate behaviour towards a planning applicant	Passed to investigation team.	Concerns not substantiated. Case closed.
5	Allegation of a sexual offence	Passed to investigation team.	Concerns not substantiated. Case closed.
6	Allegation of bullying / intimidation and an inappropriate relationship with a contractor	Passed to investigation team.	Concerns not substantiated. Case closed.
7	Allegation of harassment, breach of data protection, gross misconduct and racism	Logged as corporate complaints (SMBC and SCH).	Concerns not substantiated. Case closed.
8	Allegation of housing fraud	Passed to investigation team.	Investigation resulted in property recovery. Case closed.
9	Allegation of abuse of position by contractor.	Passed to contractor to take forward	Case closed.
10	Allegation of misuse of data	Logged as SMBC complaint.	Concerns not substantiated. Case closed.
11	Allegation of agency worker fraud.	Passed to investigation team.	Recommendations made to management. Worker employment terminated. Case closed.
12	Allegation of agency worker fraud (as no. 11 above).	As no. 11 above	As no. 11 above
13	Allegation of misuse of a taxi plate	Passed to investigation team.	Concerns not substantiated. Case closed.
14	Allegation of inappropriate system access / data protection	Passed to investigation team.	Concerns not substantiated. Case closed.
15	Allegation of misuse of stationery.	Passed to investigation team.	Concerns not substantiated. Case closed.

**Table 4**

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### Solihull Community Housing (SCH)

31. During 2020/21 Internal Audit continued to provide the audit function to SMBC's Arm's Length Management Organisation – SCH. This relationship ensures appropriate audit coverage is in place for SCH and that SMBC can be independently assured that appropriate governance arrangements are in place with this key partnership.
32. Work undertaken in respect of SCH is included in **Table 2**. The overall opinion in respect of SCH, based on the limited testing undertaken, is that overall good controls continue to operate, prompting a conclusion that substantial assurance can be placed upon the system of internal control.

### Human Resources Related Investigations

33. Internal Audit has responsibility to undertake SMBC's investigations into HR related issues, the majority of which are disciplinary investigations. In total 16 investigations were undertaken during 2020/21 and 1 mediation was also facilitated, to support the Council's recently introduced Resolution Policy.

### Audit Resources

34. Internal Audit requires appropriate resource in terms of quantity and quality to undertake sufficient work to offer an independent opinion on SMBC's internal control environment. This is a fundamental part of SMBC's governance arrangements.
35. The team consists of qualified auditors, accountants, investigators and HR specialists, supported by other staff with significant experience. We have sufficient financial resources to operate effectively, however, we will need to recruit following staff leaving.

### Internal Audit Performance (Outcomes)

#### Internal Audit Recommendations

36. As a result of conducting audit reviews, offering consultancy advice and through formal investigation work, a total of 100 recommendations were made to correct internal control deficiencies identified. Of these, 34 were high priority recommendations, 63 were medium priority and 3 were low priority. All high and medium priority recommendations are tracked by Internal Audit to ensure evidence exists that recommendations have been implemented. Any outstanding are tracked by Internal Audit to ensure implementation or where not implemented, will be brought to the attention of the appropriate senior management.

## Head of Audit Services – Annual Report 2020/21

### Internal Audit Budget

37. The service was delivered under budget in 2020/21.

### **Other Forms of Assurance**

The assessment of the internal control framework also includes:

#### External Audit

38. A close working relationship is maintained with SMBC's External Auditors, Grant Thornton. The Director of Resources and Deputy Chief Executive and HoAS attend quarterly meetings to promote the sharing of issues, work plans and completed work. In addition, Grant Thornton representatives, the Director of Resources and Deputy Chief Executive and HoAS regularly attend Audit Committee meetings.

#### Risk Management

39. The risk management system continues to work effectively and support the audit process. Risk management workshops are held for all projects in excess of £1m and are attended by both Senior Management and elected Members. All audit work includes tests on the risk management arrangements of the area being audited.
40. Significant risks are reported throughout the year to Directorate Leadership Teams, the Corporate Leadership Team and to the Audit Committee.
41. I am confident that the Risk Management system and the level of corporate and Member challenge is sufficient and robust enough for me to place reliance on the system as a whole and gain positive assurance when giving my opinion on the Council's internal control system.

#### Annual Governance Statement

42. The Annual Governance Statement (AGS) continues to provide evidence and assurance that the Councils' internal controls are sound. The AGS is prepared in line with CIPFA guidelines and the 'Delivering Good Governance in Local Government Framework' (2016).
43. The Council has its own Local Code of Corporate Governance that underlines the Council's commitment to have an effective governance framework. The Code describes the core principles that underpin the governance framework, including how the Council:
- Upholds high standards of conduct and behaviour.

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- Engages with local people and other stakeholders to ensure robust public accountability.
  - Creates and implements a vision for the local area.
  - Determines the interventions necessary to optimise the achievement of outcomes.
  - Develops the capacity and capability of members and officers to be effective.
  - Takes informed and transparent decisions that are subject to effective scrutiny and risk management.
  - Have members and officers that work together to achieve a common purpose.
44. During 2020/21, some of the key tangible outcomes associated with having effective governance arrangements include:
- There were no significant breaches of the law;
  - Freedom of information requests were dealt with well within the time tolerance set by the Information Commissioner;
  - External Audit issued an unqualified opinion on the latest financial statements;
  - The Council maintained its good track record of managing within tight financial constraints and achieving savings.
45. Both the Deputy Chief Executive and Director of Resources and the Monitoring Officer have a key role in the production of the AGS and provide assurances that the statement is representative of the Council's governance environment.

### **Audit Charter**

46. The current Audit Charter is attached at **Appendix A**.

### **2021/22 Internal Audit Plan**

47. The 2021/22 Internal Audit Plan has been compiled in line with best practice. This plan is open to adjustment as SMBC's risks continually change. The draft Internal Audit Plan for Audit Committee approval is attached at **Appendix B**.

**Internal Audit Charter**

**Appendix A:**

**Solihull MBC - Audit Services**

**Internal Audit Charter**

**July 2021**

# Internal Audit Charter

## **Introduction**

1. Good governance is crucial to successful organisations delivering their outcomes. The Authority is responsible for establishing and maintaining appropriate risk management processes, control systems and operational procedures. A professional, independent and objective internal audit (IA) service is one of the key elements of good governance, as recognised throughout the UK public sector.
2. Audit Services is located within Solihull Metropolitan Borough Council (SMBC)'s Resources Directorate.
3. Audit Services provides a range of services to SMBC in respect of risk management, health and safety, wider governance, internal audit work, investigations and other ad-hoc management requests. It also undertakes work for other organisations including Solihull Community Housing, Colleges, Parish Councils and Academies, sometimes on a trading basis.
4. The purpose of this Charter is to provide the terms of reference for the operation of the IA function at SMBC.

## **Statutory Implications**

5. The requirement for an IA function is either explicit or implied in the relevant local government legislation (Local Government Act 1972) which requires those Authorities to “make arrangements for the proper administration of their financial affairs”. In England, more specific requirements are detailed in the Accounts and Audit (England) Regulations 2015, in that ‘a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’.

## **Internal Audit Standards**

6. There is a statutory requirement for IA to work in accordance with “proper audit practices”. At SMBC the mandatory standards that apply are the Public Sector Internal Audit Standards (PSIAS). These standards apply the Institute of Internal Audit International Standards to the United Kingdom Public Sector and have been issued, amongst others, by the Chartered Institute of Public Finance and Accountancy (CIPFA) in collaboration with the Chartered Institute of Internal Auditors (CIIA).
7. The purpose of the PSIAS which came into operation on 1<sup>st</sup> April 2013 is to:
  - Define the nature of internal auditing within the UK public sector.
  - Set basic principles for carrying out internal audit in the UK public sector.
  - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations.
  - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

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8. Within these standards, and for the purposes of reporting Internal Audit activity, there is a need to clearly define the 'board' and 'senior management'. For this purpose:
- 'Senior Management' is defined as the Corporate Leadership Team (CLT);
  - 'Board' is defined as the Audit Committee.

### **Internal Audit Mission, Definition and Core Principles**

9. The PSIAS define the mission of Internal Audit as:
- 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'***
10. The PSIAS define Internal Audit as:
- '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.'***
11. The PSIAS sets out Core Principles for the Professional Practice of Internal Auditing which articulate internal audit effectiveness:
- Demonstrates integrity
  - Demonstrates competence and due professional care
  - Is objective and free from undue influence (independent)
  - Aligns with the strategies, objectives, and risks of the organisation
  - Is appropriately positioned and adequately resourced
  - Demonstrates quality and continuous improvement
  - Communicates effectively
  - Provides risk-based assurance
  - Is insightful, proactive and future-focused
  - Promotes organisational improvement

## Internal Audit Charter

### Responsibilities and Objectives

12. To comply with statute, codes of practice and to achieve the role of IA prescribed by the PSIAS, IA will:
- Review, appraise and report on the adequacy and application of internal controls, the suitability and reliability of financial and other management data, including performance measurement, and the extent to which the Authority's assets and interests are accounted for and safeguarded from loss.
  - Support and encourage value for money, including lean initiatives, through improvements in the efficiency, economy and effectiveness of services.
  - Investigate fraud, corruption and other irregularities, where appropriate.
  - Lead on counter fraud measures through promotion of fraud awareness, undertaking proactive fraud reviews and ultimately assisting management to reduce fraud risks.
  - Advise on internal control and risk implications to new and existing systems and projects.

As agreed by senior management and the Audit Committee, IA also performs investigation work, including conduct, complaint and fraud investigations. This work is performed by IA staff at the discretion and appointment of the Head of Audit Services (HoAS) but in a 'non-audit' capacity, so as not to compromise the independence of the IA function.

13. The IIA defines consultancy as the following:

***'Advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training'***

14. Where consultancy work is known in advance it will be reported to the Audit Committee as part of the annual audit plan, otherwise it will be reported once underway. Where consultancy work identifies an area that would be the equivalent of a limited or no assurance audit review, that area will be subject to a full audit review within 6-12 months.

### Authority, Reporting Lines and Relationships

15. The HoAS has a senior management role with direct reporting lines to the Director of Resources and Deputy Chief Executive (Section 151 Officer) and Chief Executive as appropriate at Corporate Leadership Team (CLT) level. In



## **Internal Audit Charter**

addition, the HoAS has direct access to the Leader of the Council and Chair of the Audit Committee/Members. The HoAS reports periodically to CLT members and the Audit Committee as appropriate.

16. Internal Auditors have rights of access to all SMBC records, assets, personnel and premises. SMBC's Financial Regulations authorise IA to obtain such information and explanations as considered necessary to discharge its responsibilities. These rights extend to key systems being operated by, or key services provided by or on behalf of organisations undertaking services commissioned by SMBC, for example, Solihull Community Housing and other major contracts/partnerships.

### **Organisational Independence**

17. With the exception of responsibilities clearly defined in respect of consultancy and investigations, IA is independent of all other functions, enabling an objective review of all areas of SMBC's business.
18. The HoAS has direct access, and freedom to report without fear or favour, to all officers, Members, commissioned organisations and those charged with governance.
19. SMBC will make available suitable budgetary resources to maintain organisational independence and not compromise compliance with the PSIAS or the ability of IA to provide assurance for the Annual Governance Statement.
20. If individual auditors are extensively consulted during system, policy or procedure development, and independence could be seen as being compromised, or if they have had previous operational roles, they will be precluded from reviewing and making comments during routine or future audits, for the remainder of that financial year and for the following financial year after their involvement in that area.

### **Scope of Review**

21. IA reviews SMBC's control environment, covering risk management, control and governance. This means that the scope of IA includes all of SMBC's operations, resources, services and responsibilities in relation to other bodies.

### **Internal Audit Resources**

22. IA must be appropriately staffed in terms of numbers, grades, qualification levels and experience, to achieve its objectives and comply with statutory standards. Internal Auditors need to be adequately trained to fulfil their responsibilities and should maintain their professional competence through an ongoing development programme. This includes specialist skills, e.g. investigative and IT auditing skills.

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23. The HoAS is responsible for ensuring that the IA resource is sufficient to meet its responsibilities. If the HoAS felt those resources were insufficient, this would be formally reported to the Director of Resources and Deputy Chief Executive (Section 151 Officer). If this was not satisfactorily resolved, further representation would be made to the Chief Executive and/or Audit Committee.
24. The HoAS will periodically assess resource requirements by undertaking an 'audit needs assessment'. This will ensure that appropriate resources are available to achieve the IA plan and to offer a valid opinion on SMBC's system of internal control.

### **Audit Planning**

25. The modern approach for the effective delivery of IA, as recommended by CIPFA and the CIIA, is based upon the principle of "risk-based auditing". The objective of risk-based auditing is to provide independent assurance to SMBC that:
- risk management processes are operating as intended at corporate, directorate, divisional and team level;
  - risk management processes are robust and appropriate; and
  - where management has chosen to mitigate/treat risks, their actions are adequate and effective.
26. IA uses a risk-based scoring model to record areas for possible review. This is used to create an annual IA work plan. The HoAS reviews SMBC's risk registers and considers other intelligence, for example, management concerns, on a regular basis and the IA plan is modified where necessary to ensure the most relevant value adding work is carried out. IA will also consider the cost of providing assurance in relation to the benefits.

### **Fraud and Corruption**

27. It is management's responsibility to manage the risk of fraud and corruption within their areas of service delivery. IA does have a lead role to support management to counter fraud and corruption. The work performed by IA builds anti-fraud measures into systems to prevent fraud and corruption. IA is alert to risks and exposures that could allow fraud or corruption to occur.
28. SMBC's Financial Regulations require that all suspected or detected fraud, corruption or other improprieties are reported to the HoAS. IA will consider whether each case merits investigation, the adequacy of relevant controls and the implication of fraud and corruption for the audit opinion on the internal control environment.

### **Audit Process & Reporting Accountabilities**

29. Routine (normal audit) reviews will be detailed in an Audit Brief/Terms of Reference document and agreed with the responsible Head of Service (HOS)/ Assistant Director.

## Internal Audit Charter

30. A draft report will be issued to the responsible HOS at the conclusion of the review and a period (normally 2 weeks) will be allocated for the HOS to respond to the report and any recommendations made to improve the control environment. A final report including the HOS' response (where received) will be issued to the respective Director and Chief Executive where appropriate. Where reports are limited or no assurance these will be issued to the director at draft stage.
31. Each review will be given an assurance rating by IA based on the materiality, volume and impact the audit findings in respect of the internal control environment. These are as follows:

Score	Assurance Level	Assurance Criteria
1	Full	There is a sound framework of control operating effectively to achieve control objectives.
2	Substantial	The framework of control is adequate and controls are generally operating.
3	Moderate	The control framework is adequate but a number of controls are not operating effectively.
4	Limited	Adequate controls are not in place to meet all the system objectives and controls are not being consistently applied.
5	None	The control framework is inadequate and controls in place are not operating effectively. The system is open to abuse, significant error or loss and/or misappropriation.

32. Recommendations made by IA are ranked in order of priority linked to risk and respective key control objective using the following ranking method:

Importance	Description
High Priority	These are fundamental recommendations, which Internal Audit will be looking for management to accept and implement. Non-implementation of these recommendations may impact on the Annual Governance Statement. These will be followed up within 3 months of the final report date.
Medium Priority	These are recommendations, which will improve the overall control environment. These will be followed up at the discretion of Internal Audit Management.
Low Priority	These are advisory or best practice issues for management, which management are encouraged to implement.

33. If a HOS does not accept or cannot implement a recommendation, this must be stated in the response given. The HoAS is responsible for assessing whether the HOS' response is adequate. Where a response is deemed inadequate, the HoAS will initially raise the issue with the respective Director.

## **Internal Audit Charter**

If the HoAS feels the issue is still not resolved and is of significant importance, this will be raised with the Chief Executive and, ultimately, the Audit Committee.

34. Where a HOS does not respond to an audit report within an acceptable timescale, this will be initially be reported to the respective Director and, if a response is still not received, this will be raised with the Chief Executive and, ultimately, the Audit Committee.
35. Where areas are scored 1-3 they will be subject to a follow-up review, to determine whether recommendations have been implemented as agreed, at an appropriate time (taking resources into account).Where areas are scored 4 or 5 they will be subject to another full assurance review within 6 to 12 months.
36. Periodic meetings to discuss audit issues will take place with each Director as and when appropriate. The HoAS will provide each Director with details of IA work completed in their area of responsibility to inform their assurance statement submitted to contribute to SMBC's Annual Governance Statement.
37. The HoAS will also periodically meet with the Chief Executive to consider significant audit findings and discuss future areas of audit coverage. As a matter of routine, the final report of all reviews given an assurance rating of 4 or 5 will be issued to the Chief Executive and Audit Committee. In addition, where key findings relate to central functions (i.e. finance) these findings will also be reported to those areas.

### **Risk Management**

38. It is management's responsibility to ensure that all risks identified by IA are considered for inclusion in SMBC's risk management system. The HoAS will refer all identified risks, with recommendations made to mitigate those risks, to the respective manager for their information and possible inclusion on the JCAD system.

### **Audit Committee (Board)**

39. SMBC has an Audit Committee which meets at least four times a year. The HoAS, Section 151 Officer, and SMBC's External Auditor routinely attend to support the work of the Committee.
40. In addition to these meetings, the HoAS has direct contact with members of the Audit Committee should an issue be raised that requires referral. Regular private meetings also take place between the Chair of the Audit Committee and the HoAS.
41. The HoAS will submit an annual report detailing IA coverage for the year. This report also provides an opinion on the internal control system and contributes to SMBC's Annual Governance Statement.

## **Internal Audit Charter**

42. The Audit Committee also approves IA future work plans, reviews anti-fraud arrangements and monitors the effectiveness and performance of the IA function.
43. Where IA is requested to undertake 'non-audit' related work, this will be agreed with the Audit Committee prior to undertaking the assignment.

**Steve Sparkes**  
**Head of Audit Services**

**Paul Johnson**  
**Director of Resources and Deputy Chief Executive (Section 151 Officer)**

**Nick Page**  
**Chief Executive**

**Charter Endorsed by Audit Committee (the Board) – July 2021**

## Internal Audit Plan 2021-22

### Appendix B:

### Proposed Internal Audit Plan

2021/22

**Note:** Due to the Covid-19 situation Internal Audit resourcing will remain flexible as demands may emerge through supporting the organisation in dealing with the pandemic or a loss of resourcing because of the pandemic. The Plan below will be closely monitored and progress or changes reported to Senior Management and Audit Committee.

Internal Audit management will work closely with senior management to ensure audit resources are used in the best manner to assist the organisation whilst delivering the key purpose of Internal Audit, being 'An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations'.

#### **CONSULTATION / RISK MANAGEMENT CHALLENGE**

In pursuance of the key audit objective to provide independent, objective and consulting activities, audit resource will be utilised to support a number of boards, projects and work streams throughout the Council. This will involve making independent recommendations to improve governance and internal controls to promote the Council managing its' risks more effectively. These recommendations will be reported and tracked in the same manner as those recommendations made in Audit reports through the Council's Risk Management System (JCAD).

#### **AUDIT REVIEWS:**

##### **Core Financial Systems:**

Payroll

Bank and Systems Reconciliations

Collection Fund

Accounts Payable

Accounts Receivable

Housing Benefits

Treasury Management

Direct Payments - Adults

Direct Payments - Childrens

##### **Adult Care and Support Directorate:**

Top Ups

Covid-related Funding Schemes

Winter Pressures

## Internal Audit Plan 2021-22

<b><u>Economy and Infrastructure Directorate:</u></b>
Car Parking
Voluntary and Community Contracts
Building Control
Holiday Activity and Food Programme
Food Safety
Licensing
<b><u>Children's Services and Skills Directorate:</u></b>
SEND (follow up)
Children's Educational Placements (follow up)
Alternative Provision (follow up)
Schools – to be selected on risk basis throughout year.
Education Improvement Service
Emergency Duty Team
Child Protection
Children in Need
Solihull Music Service
<b><u>Public Health Directorate:</u></b>
Leisure Centres
<b><u>Resources Directorate:</u></b>
Oracle Cloud
Corporate Procurement
Risk Management
Catering (follow up)
Purchase Cards (follow up)
Property Services
Mandatory Training
<b><u>COUNTER-FRAUD WORK:</u></b>
Covid-Related Grants
Social Housing Fraud
Right to Buy Applications
Tenancy Application Vetting
National Fraud Initiative
Single Persons Discount

## Internal Audit Plan 2021-22

Council Tax Reduction
Fraud Awareness
Business Rates
Financial Investigation Support
Blue Badges
School Placements
<b><u>SOLIHULL COMMUNITY HOUSING:</u></b>
Capital Expenditure
Accounts Payable
Accounts Receivable
Bank Reconciliation
Housing Rents
Housing Repairs
Payroll
Fire Safety
Complaints
Procurement
Assets
PDR Framework (follow up)
Right To Buy
Rent Collection Process