

Internal Audit Annual Report 2015/16

CITY OF
WOLVERHAMPTON
COUNCIL



**Stronger
Economy**



**Stronger
Communities**



**Stronger
Organisation**

Introduction

Our internal audit work for the period from 1 April 2015 to 31 March 2016 was carried out in accordance with the approved 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 to accompany 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 (GrantThornton)
- The result of any quality accreditation
- The outcome of any visits by Her Majesty's Revenues and Customs (HMRC)
- Other pieces of consultancy or third party work designed to alert the Council to areas of improvement
- Other external review agencies (i.e. Ofsted, the Information Commissioner's Office)

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 authority as the only 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.

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.

Overall Assurance

As the providers of internal audit to the council, we are required to provide the Managing Director and 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 Managing Director and Section 151 Officer is reasonable assurance that there are no major weaknesses in the council's governance, risk management and control processes. We have taken into account:

- All audits undertaken for the year ended 31 March 2016.
- Any follow-up action taken in respect of audits from previous periods.
- Any key recommendations not accepted by management and the consequent risks.
- 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.

Internal Audit Opinion

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

Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the council by other providers as well as directly by Internal Audit, Internal Audit can provide **reasonable assurance** that the Council has adequate and effective governance, risk management and internal control processes.

However, throughout the year we did note a number of key control issues, either through our work or in the preparation of the Annual Governance Statement, and these are listed below.

While not fundamental to the overall opinion, we gave a 'limited' rating as a result of our internal audit work in the following areas:

| |
|---|
| Use of P-Cards: Systems Controls |
| Young Peoples Supported Living (YMCA) Contract Arrangements |
| Accounts Payable |
| Income Manager |
| Debt Recovery |
| Agresso Access Controls |
| Schools ICT Management |
| Black Country Gold |
| Bilston Urban Village Project |
| 5 x School Audits |

Governance issues arising from the Annual Governance Statement:

The Council recognises that the identification, evaluation and monitoring of risks is a key aspect in the governance of the organisation. The following matters represent the most significant current governance issues that are subject to attention in order to ensure that lessons are learnt and good practice is embedded:

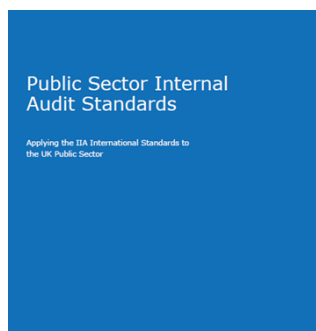
| |
|---|
| Savings Targets |
| Combined Authority |
| Corporate Landlord |
| Procurement, Contract Management and Monitoring |
| Partnership Governance |

Further details on each of these can be found in the Annual Governance Statement.

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

- 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 in section 4 of this report.

Compliance with the Public Sector Internal Audit Standards



During the year we complied with the Public Sector Internal Audit Standards which came into effect from 1 April 2013.

Summary of work completed

A detailed written report and action plan is prepared and issued for every review where appropriate. The responsible officer will be asked to respond to the report by completing and returning an action plan. This response must show what actions have been taken or are planned in relation to each recommendation.

Year on year comparison

A total of 62 pieces of audit work were completed during the year, where an audit opinion has been provided. A summary of these audit opinions, with a comparison over previous years is given below.

| Opinion | 2015/16 | 2014/15 | 2013/14 |
|--------------|---------|---------|---------|
| Substantial | 13 | 7 | 18 |
| Satisfactory | 35 | 29 | 51 |
| Limited | 14 | 12 | 9 |

Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

| Limited | Satisfactory | Substantial |
|--|--|---|
| There is a risk of objectives not being met due to serious control failings. | A framework of controls is in place, but controls need to be strengthened further. | There is a robust framework of controls which are applied continuously. |

Summary of internal audit reviews completed in 2015/16

| Auditable area | AAN Rating | Recommendations | | | | | Level of assurance |
|--|------------|-----------------|-------|-------|-------|--------|--------------------|
| | | Red | Amber | Green | Total | Agreed | |
| Previously reported: | | | | | | | |
| Hill Avenue Primary School | Medium | - | 7 | 6 | 13 | 13 | Limited |
| Low Hill Nursery School | Medium | - | - | 5 | 5 | 5 | Substantial |
| Whitgreave Junior School | Medium | - | - | - | 0 | 0 | Substantial |
| Long Knowle Primary School | Medium | 1 | 12 | 5 | 18 | 18 | Limited |
| Senior Officers Remuneration and Officers > £50K | N/A* | - | - | - | - | - | N/A* |
| Coppice Performing Arts School | N/A* | 1 | - | - | 1 | 1 | Limited |
| Use of P-cards: System controls | N/A* | - | 4 | 2 | 6 | 5** | Limited |
| Grove Primary School | Medium | - | 6 | - | 6 | 6 | Satisfactory |
| Warstones Primary Schools | Medium | - | - | 6 | 6 | 6 | Satisfactory |
| Graiseley Primary School | Medium | - | - | 4 | 4 | 4 | Satisfactory |
| New Park Community Special School | Medium | - | 2 | 2 | 4 | 4 | Satisfactory |
| Rakegate Primary School | Medium | - | 2 | 3 | 5 | 5 | Satisfactory |
| Penn Hall Special School | Medium | - | - | - | - | - | Substantial |
| Migration of Services into the Customer Contact Centre | Medium | - | - | 4 | 4 | 4 | Substantial |
| Street Lighting – Capital Programme | Medium | - | 3 | - | 3 | 3 | Satisfactory |
| Fleet Management – Hire and Replacement of Vehicles | Medium | - | 2 | 3 | 5 | 5 | Satisfactory |
| Budgetary Control Managed Audit | High | - | 3 | 2 | 5 | 5 | Satisfactory |

| Auditable area | AAN Rating | Recommendations | | | | | Level of assurance |
|--|------------|-----------------|-------|-------|-------|--------|--------------------|
| | | Red | Amber | Green | Total | Agreed | |
| General Ledger | High | - | 2 | 4 | 6 | 6 | Satisfactory |
| Housing Benefits | High | - | 1 | 3 | 4 | 4 | Satisfactory |
| Carbon Reduction Commitment Assurance Review / Data Verification | High | - | - | 1 | 1 | 1 | Substantial |
| Young Peoples Supported Living (YMCA) Contract Arrangements | High | 1 | 3 | - | 4 | 4 | Limited |
| Villiers Primary School | Medium | - | - | 3 | 3 | 3 | Substantial |
| Palmers Cross Primary School | Medium | 1 | 7 | 1 | 8 | 8 | Limited |
| Claregate Primary School | Medium | - | 2 | 1 | 3 | 3 | Satisfactory |
| Accounts Receivable | High | - | 5 | 7 | 12 | 11** | Satisfactory |
| Business Continuity / Resilience Management | High | - | 3 | 6 | 9 | 9 | Satisfactory |
| Transport Related Grant Certification | Medium | - | - | - | - | - | Satisfactory |
| Decent Homes Backlog Grant Certification | N/A* | - | - | - | - | - | Satisfactory |
| Corporate Landlord Charging and Income Collection (Project Costing and Billing System) | Medium | - | 3 | - | 3 | 3 | Satisfactory |
| Administration of Section 106 monies | N/A* | - | - | - | 3 | 3 | Substantial |
| Accounts Payable Full Systems Audit | High | - | 10 | 5 | 15 | 15 | Limited |
| Stowlawn Primary School | Medium | - | 1 | 5 | 6 | 6 | Satisfactory |
| Independent Reviewing Officer Service | Medium | - | 3 | 3 | 6 | 6 | Satisfactory |
| Pre-Paid Cards Implementation | High | - | 2 | - | 2 | 2 | Satisfactory |
| St Alban's CE Primary School | Medium | - | 1 | - | 1 | 1 | Substantial |
| Salary Sacrifice Schemes | Medium | - | 5 | 1 | 6 | 6 | Satisfactory |

| Auditable area | AAN Rating | Recommendations | | | | | Level of assurance |
|---|------------|-----------------|-------|-------|-------|--------|--------------------|
| | | Red | Amber | Green | Total | Agreed | |
| Agresso Implementation Update | N/A* | - | 2 | 1 | 3 | 3 | Satisfactory |
| Income Manager | Medium | 1 | 3 | 2 | 6 | 6 | Limited |
| Governance's P-Card Usage | Medium | - | 3 | - | 3 | 3 | Satisfactory |
| Mayoral Office | Medium | - | - | 4 | 4 | 4 | Substantial |
| <i>Reported this quarter for the first time:</i> | | | | | | | |
| Debt Recovery Arrangements | Medium | 3 | 5 | 5 | 13 | 13 | Limited |
| Grant Accounting and Accountable Bodies | Medium | - | 1 | 3 | 4 | 4 | Satisfactory |
| Council Bank Changes | Medium | - | - | - | - | - | Substantial |
| Agresso Access Controls | Medium | 1 | 5 | 2 | 8 | 8 | Limited |
| Equalities and Diversity | Medium | - | 3 | 6 | 9 | 9 | Satisfactory |
| Main Accounting (incl. GL & Budgetary Control) - 2015/16 KFS Review | High | - | 2 | 8 | 10 | 10 | Satisfactory |
| Payroll | High | - | 1 | - | 1 | 1 | Satisfactory |
| Accounts Receivable | High | - | 1 | 2 | 3 | 3 | Satisfactory |
| Accounts Payable | High | - | 2 | 4 | 6 | 6 | Satisfactory |
| Fixed Assets | High | - | 4 | - | 4 | 4 | Satisfactory |
| Capital Expenditure | High | - | 2 | - | 2 | 2 | Satisfactory |
| Treasury Management | High | - | 2 | - | 2 | 2 | Satisfactory |
| Housing Benefits | High | - | - | 1 | 1 | 1 | Substantial |
| Local Taxes (including Council Tax and NNDR) | High | - | - | 1 | 1 | 1 | Substantial |
| External Placements | Medium | - | 1 | - | 1 | 1 | Substantial |

| Auditable area | AAN Rating | Recommendations | | | | | Level of assurance |
|--|------------|-----------------|-------|-------|-------|--------|--------------------|
| | | Red | Amber | Green | Total | Agreed | |
| Transitions | Medium | - | 4 | 2 | 6 | 6 | Satisfactory |
| Safeguarding in Schools | Medium | - | 4 | 2 | 6 | 6 | Satisfactory |
| Schools ICT Management | Medium | - | 5 | - | 5 | 5 | Limited |
| School Improvement and Governance Strategy | Medium | - | - | 5 | 5 | 5 | Satisfactory |
| East Park Primary School | Medium | - | 7 | - | 7 | 7 | Limited |
| City Centre Development | Medium | - | 6 | 6 | 12 | 12 | Satisfactory |
| Black Country Gold | Medium | 1 | 5 | 4 | 10 | 10 | Limited |
| Bilston Urban Village Project | Medium | - | 2 | 17 | 19 | 19 | Limited |

Key:

AAN Assessment of assurance need.

* One-off piece of work undertaken by request or certification/non-risk based reviews etc. – therefore an audit opinion may not always be provided.

** Recommendations were superseded.

Key issues arising from our work completed in Q4

(Key issues arising from our work up to quarter 3 have already been reported back to the Committee in our in-year update reports.)

Debt Recovery Arrangements

The Head of Revenues and Benefits had taken over the management of the Council's Debt Recovery Team in order to improve debt collection rates. Independent reviews were undertaken to identify potential changes to debt collection processes, which were formulated into an action plan and towards the end of the year, the Council's collection rate had significantly improved.

Agresso Access Controls

A high level review of the management of access within the Agresso system was undertaken as part of the annual review of key financial systems. We identified a number of issues around the processes for granting, monitoring, and revoking access to the various key financial systems operated within Agresso.

Schools ICT Management

A brief review of ICT asset management arrangements at a sample of schools was undertaken. We identified a number of issues including:

- Where schools dispose of, or transfer ICT equipment to another school, Governing Body or Headteacher approval was not always obtained and recorded, including details of equipment disposed of or transferred;
- Schools were not always completing or ensuring that an annual check of ICT equipment was completed.

An article reminding schools of their responsibilities in terms of the disposal / transfer of assets, recording and checking assets and the removal of assets off site was also included in the weekly Schools' Bulletin.

East Park Primary School

At the time of the review, the school had recently undergone a change of leadership. We identified a number of historical practices which were either in the process of being reviewed or had ceased since the change in leadership, but insufficient time had elapsed for evidence to be gathered to recognise the progress made in all instances. Some of the main issues identified during the course of our audit included:

- Up to date contracts of employment were not readily available at the school for all staff;
- Notifications effecting changes to employee contracts were not always authorised by the Headteacher and evidence that the Governing Body were informed of changes to employees' contracts could not be located.
- Testing of the approval of expenditure above the Headteacher's delegated limit identified a lack of transparency around the award of a two year contract.
- Details of quotations or the options available for the award of contracts above the Headteacher's delegated expenditure limit were not presented to governors for consideration.
- Orders being raised after receipt of the invoice.
- The Breakfast and After School Clubs records did not clearly record income due and collected.
- Virements had been processed prior to approval in a number of instances.

All of our recommendations were agreed for implementation with immediate effect by the Headteacher.

Bilston Urban Village Advanced Works Programme

Our review was undertaken at the request of the Service Director – City Economy on the following two areas:

- Bilston Urban Village Advance Works Programme (AWP) governance and project management arrangements
- Bilston Urban Village AWP procurement exercise

A number of issues were identified regarding the governance and project management arrangements as well as the procurement exercise undertaken for the Advanced Works Programme. The issues identified related to the period September 2013 to August 2015 and the programme has now reached practical completion.

The Service Director – City Economy who was responsible for the programme from September 2015 onwards as the Senior Responsible Officer has taken remedial action since this time in order to address issues around additional spend and strengthening of the governance and programme management arrangements. They have also advised us that the agreed actions detailed in the audit report will be addressed as part of a comprehensive programme of improvement to be completed by December 2016 which will be implemented within current and future programme / project delivery.

Black Country GOLD

An audit of the ERDF funded Black Country GOLD Project was undertaken in preparation for the Department of Communities and Local Government (DCLG) Project Assessment Visit that was scheduled for early January 2016. This reviewed covered compliance with the ERDF Monitoring Assurance Framework which included use of the Council's Financial System (Agresso), compliance with Financial Procedure Rules as well as governance and project management arrangements.

The project provided business assistance to small and medium enterprises based in the Black Country which resulted in the award of grant funding to support growth and achievement of outputs such as job creation through for example, the purchase of equipment / machinery. Outputs for each project are measurable up to 12 months after the end of the funding agreement period (30 June 2015). The Project was delivered under a collaboration agreement between Dudley Metropolitan Borough Council, Sandwell Metropolitan Borough Council, Walsall Metropolitan Borough Council and the University of Wolverhampton Business Solutions Centre.

The Council undertook the accountable body role and lead authority for the Project. The Black Country GOLD Project ended on 30 June 2015 although final grant monies had not been received at the time of review. The Project Team are in the process of establishing a new project having successfully applied for ERDF monies of approximately £1.8m towards a total project value of £5.9m.

A number of areas were identified where improvements were required regarding use of the Council's Financial System (Agresso), compliance with Financial Procedure Rules as well as governance and project management arrangements. However, we understand that ERDF requirements had been met for the project and all grant monies have now been received from the DCLG. The Business Development and Investment Manager has provided details regarding progress that has been made with implementation of the agreed action in good time for the commencement of the new project.

Follow up of previous recommendations

We continue to monitor the implementation of previous key recommendations, and any major issues of concern relating to their non-implementation, will be reported back to the Audit and Risk Committee.

Counter Fraud Activities

We continue to investigate all allegations of suspected fraudulent activity, during the year. Details of these have will be presented to the Audit and Risk Committee in a separate report, along with details of initiatives put in place in order to both raise awareness of, and tackle fraud across the Council.

Key Financial Systems Audits

During the year we undertook detailed reviews of all of the Council's key financial systems. These are agreed in advance with the External Auditors who use the results of our reviews to inform their work, where appropriate.

School Audits

During the year we maintained a strong audit presence in the City's schools. Our annual school audit review programme focuses upon the adequacy and effectiveness of LA maintained schools' governance, risk management and control processes.

Digital Transformation Programme/Equal Pay Project

We have provided on-going assurance throughout the year in respect of the Digital Transformation Programme (DTP) and Equal Pay project. Whilst no audit reports have been produced on-going advice and consultancy has been provided throughout the year by designated member of the team who has been embedded in each programme/project.

Audit and assurance effectiveness measures

Our performance against the following Audit and Assurance effectiveness measures, that were prepared around the successful delivery of the audit service, is as follows:

| Audit Plan measures | |
|--|---|
| Audit reports identifying suggested areas for action, issued to auditees within two weeks of completion of fieldwork. | Approximately 60% of audit reports were issued within two weeks of the completion of audit fieldwork. A new protocol has been agreed with senior managers in order to help improve on this. |
| Number of audits where time taken to complete assignment is more than 10% longer than planned. | Approximately 50% of reviews took 10% longer than anticipated, with the others completed either on target or under. In the majority of instances, reasons for audit work exceeding budget is that unforeseen issues arise which take time to resolve. |
| Delivery of at least 80% of the audit plan, and an opinion which provides suitable assurance on the overall governance, risk management and control environment. | The audit plan was subject to revision during the course of the year in order to take account of emerging issues and a changing risk profile, during. However, key risk areas identified in the plan have been completed where appropriate. |
| Risk Based Audit Plan produced and available to the Council in advance of the year. | Yes, the Audit Plan was approved by the Audit and Risk Committee before the year commenced. |

| | |
|---|---|
| Recommendations measures | |
| 90% of recommendations accepted by Council management. | Over 90% of our recommendations made in year were accepted by Council management. |
| Number of key recommendations followed up, implemented by the council by the target date. | The majority of previous key recommendations followed up had been implemented within the agreed date. |
| Relationships measure | |
| Positive feedback from completed client satisfaction surveys. | Yes, the vast majority of feedback was of a positive nature, and is available for review if required. |
| External Audit measure | |
| Full reliance placed on internal audit work by External Audit. | The External Auditors continue to comment favourably on work completed by Internal Audit. |

Quality assurance and improvement programme

Internal audit has a quality assurance and improvement programme. During the year, the internal audit activity has followed this programme and there have been no significant areas of non-conformance or deviations from the standards as set out in the Public Sector Internal Audit Standards.