



# Audit and Risk Committee

3 July 2017

<b>Report title</b>	Annual Internal Audit Report 2016-2017	
<b>Accountable director</b>	Claire Nye, Finance	
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<b>Report to be/has been considered by</b>	Not applicable	

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## Recommendation for noting:

The Committee is asked to note:

1. The contents of the Annual Internal Audit Report and the overall opinion that “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”

## **1.0 Purpose**

- 1.1 The purpose of this report is to provide the Audit Committee with an annual internal audit opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control processes.

## **2.0 Background**

- 2.1 This report gives a brief description of the role of Internal Audit, the control environment within which it operates, its compliance with the Public Sector Internal Audit Standards and a summary of the work carried out during the year to 31 March 2017.

## **3.0 Progress, options, discussion, etc.**

- 3.1 Regular progress reports on the work of Internal Audit will continue to be presented to the Audit and Risk Committee.

## **4.0 Financial implications**

- 4.1 There are no financial implications arising from the recommendations in this report. (MK/20062017/S)

## **5.0 Legal implications**

- 5.1 There are no legal implications arising from the recommendations in this report. (TS/19062017/U)

## **6.0 Equalities implications**

- 6.1 There are no equalities implications arising from the recommendations in this report.

## **7.0 Environmental implications**

- 7.1 There are no environmental implications arising from the recommendations in this report.

## **8.0 Human resources implications**

- 8.1 There are no human resources implications arising from the recommendations in this report.

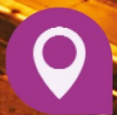
## **9.0 Corporate landlord implications**

- 9.1 There are no corporate landlord implications arising from the recommendations in this report.

## **10.0 Schedule of background papers – Internal Audit Quarterly Update Reports**



# Internal Audit Annual Report 2016-2017



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## *Introduction*

Our internal audit work for the period from 1 April 2016 to 31 March 2017 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. Also, consideration of the Council's ethics-related objectives programmes and activities, and the information technology governance is implicit in all internal audit activity.

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 2017.
- 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.

### *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:

Payment Arrangements for Court Costs
Section 17 Payments
Volunteer Drivers
Payroll Contribution Statements for WMPF
Dedicated Schools Grant for Terrific for Two's Capital Projects
Health and Safety
Civic Hall Refurbishment Project
Jacobs Strategic Partnership
Black Country Growth Hub
Private Sector Housing - Private Landlord Enforcement
ConnectED
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

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 later in this report.

### *Compliance with the Public Sector Internal Audit Standards*

#### Public Sector Internal Audit Standards

Applying the IIA International Standards to  
the UK Public Sector

The internal audit service follows the Public Sector Internal Audit Standards, and the Code of Ethics that form part of the standards, as laid out in the internal audit charter approved by the Audit and Risk Committee. The quality assurance and improvement programme 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 external assessment of this programme is planned for 2017-2018.

### *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.

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.

### *Year on year comparison*

68 pieces of audit work have been completed so far in the current year, where an audit opinion has been provided. A summary of the audit opinions given, with a comparison over previous years, is set out below:

Opinion	2016/17	2015/16	2014/15
Substantial	27	13	7
Satisfactory	25	35	29
Limited	16	14	12



### Summary of audit reviews completed

The following audit reviews were completed during the 2016-2017 year.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Previously reported:							
Phoenix Nursery School	Medium	-	-	1	1	1	Substantial
St Thomas' CE Primary School	Medium	-	-	2	2	2	Substantial
Holy Trinity Catholic Primary School	Medium	-	-	2	2	2	Substantial
Castlecroft Primary School	Medium	-	-	2	2	2	Substantial
St Michael's CE Aided Primary School	Medium	-	-	4	4	4	Substantial
The Braybrook Centre	Medium	-	-	4	4	4	Substantial
The Orchard Centre	Medium	-	-	2	2	2	Substantial
Midpoint Centre	Medium	-	-	4	4	4	Substantial
Fleet Management Accounts Payable Process	Medium	-	1	5	6	6	Substantial
FutureSpace Governance Assurance	High	-	-	3	3	3	Substantial
Annual Certification of Senior Officers Remuneration and Officers earning over £50K	N/A*	-	-	-	-	-	N/A*
Tettenhall Wood Special School	Medium	-	2	1	3	3	Satisfactory
Wilkinson Primary School	Medium	-	3	2	5	5	Satisfactory
Bilston CE Primary School	Medium	-	1	4	5	5	Satisfactory
Christ Church CE Junior School	Medium	-	-	3	3	3	Substantial
Mayoral Hospitality	Medium	-	-	2	2	2	Substantial
Schools Compliance - Collective Agreement	Medium	-	3	2	5	5	Satisfactory



Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Management of Utility Works	Medium	-	-	5	5	5	Substantial
Carbon Reduction Credits Scheme	N/A*	-	-	-	-	-	N/A*
Payment Arrangements for Court Costs	Medium	1	1	-	2	2	Limited
Section 17 Payments	Medium	-	10	1	11	11	Limited
IT and SM Transport Grant 2015	N/A*	-	-	-	-	-	N/A*
Highway Challenge Fund Grant	N/A*	-	-	-	-	-	N/A*
Payment by Results - June 2016 Claim	N/A*	-	-	-	-	-	N/A*
Woodfield Infants School Audit	Medium	6	11	5	22	22	Limited
Woodfield Junior School Audit	Medium	6	10	5	21	21	Limited
Loxdale Primary School	Medium	-	4	4	8	8	Satisfactory
Oxley Primary School	Medium	5	16	3	24	24	Limited
Coppice Performing Arts School	Medium	-	3	1	4	4	Satisfactory
St. Matthias Secondary School	Medium	-	7	3	10	10	Satisfactory
The King's CE School	Medium	-	2	8	10	10	Satisfactory
Volunteer Drivers	Medium	4	3	-	7	7	Limited
Employee Benefits Scheme	Medium	-	-	2	2	2	Satisfactory
Payroll Contribution Statements for WMPF	Medium	-	5	1	6	6	Limited
Dedicated Schools Grant for Terrific for Two's Capital Projects	*	3	-	-	3	3	Limited
Agresso Upgrade – Payroll	Medium	-	1	2	3	3	Substantial
Agresso Upgrade – Human Resources	Medium	-	3	-	3	3	Satisfactory

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Agresso Upgrade – Income Manager	Medium	-	-	-	-	-	Substantial
Agresso Upgrade – P2P (Creditors)	Medium	-	-	-	-	-	Substantial
Agresso Upgrade – S2C (Debtors)	Medium	-	-	-	-	-	Substantial
Agresso Upgrade – Project Costing Billing	Medium	-	-	-	-	-	Substantial
Treasury Management	Medium	-	-	1	1	1	Substantial
<b>New for this quarter:</b>							
St Paul's CE Aided Primary School	Medium	3	4	3	10	10	Limited
Green Park Special School	Medium	-	5	1	6	6	Satisfactory
D'Eyncourt Primary School	Medium	7	14	4	25	25	Limited
WV Active Online Booking and Payments	Medium	-	7	2	9	9	N/A*
Off Site School Visits	Medium	-	4	-	4	4	Satisfactory
Freedom of Information Requests	Medium	-	-	2	2	2	Substantial
Home to School Transport	Medium	-	6	2	8	8	Satisfactory
Information Governance	Medium	-	4	3	7	7	Satisfactory
Procurement – Compliance Review	Medium	-	1	3	4	4	Satisfactory
Performance Appraisal Scheme	High	4	4	5	13	13	Satisfactory
Multi Agency Safeguarding Hub	High	-	2	2	4	4	Satisfactory
Accounts Receivable	High	-	-	-	-	-	Substantial
Payroll	High	-	2	1	3	3	Satisfactory
Local Taxes	High	-	-	-	-	-	Substantial

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Council Tax Reduction Scheme	High	-	-	-	-	-	Substantial
Agresso Upgrade - R2R (Report to Report)	Medium	-	-	-	-	-	Substantial
Accounts Payable	High	-	-	3	3	3	Substantial
Housing Benefits	High	-	-	-	-	-	Substantial
Housing Rents	High	-	1	1	2	2	Satisfactory
Payment by Results - January 2017 Claim	N/A*	-	-	-	-	-	N/A*
Payment by Results - March 2017 Claim	N/A*	-	-	-	-	-	N/A*
Springdale Infants	Medium	-	4	4	8	8	Satisfactory
Capital Expenditure	High	-	2	3	5	5	Satisfactory
Main Accounting System	High	-	1	7	8	8	Satisfactory
Fixed Assets	High	-	1	3	4	4	Satisfactory
Health and Safety	Medium	2	5	1	8	8	Limited
Civic Hall Refurbishment Project	High	1	14	-	15	15	Limited
Black Country Growth Hub	High	-	10	1	10	10	Limited
Pre-Paid Cards	Medium	-	2	4	6	6	Satisfactory
ConnectED	Medium	-	17	1	18	18	Satisfactory
Property Services Strategic Partnership	Medium	1	7	-	8	8	Limited
Highways Asset Management	Medium	-	-	-	-	-	Substantial
WV Creative & Visitor Economy - Phase 1	Medium	-	5	-	5	5	Satisfactory
Private Sect Housing - Private Landlord Enforcement	Medium	-	5	2	7	7	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/required.

### *On-going assurance where reports are not issued*

We provide on-going assurance throughout the year in the following areas:

#### *Equal Pay*

A member of the audit team is embedded in the project to provide advice on project governance and risks associated with the management of equal pay claims. Audit assurance is also provided around the calculation of settlement offers and the payment of claims.

#### *Information Governance*

We have a member of the team who sits on the Council's Information Governance Board.

#### *Digital Transformation Programme (DTP)*

We also have a member of the team involved in this programme which covers the Customer Engagement Platform, Master Data Management, and Business Intelligence projects. During the lifecycle of the programme we provide on-going advice on the governance of the programme and management of associated risks. We have also provided on-going support in respect of user acceptance testing in respect of each of the programme's projects.

#### *Corporate Projects/Programmes*

We also have representation on the Council's Corporate Review Group. The group is responsible for reviewing and approving the initiation all of the Council's proposed programmes and projects. The group also provides assurance that all programmes and projects are managed in accordance with the Council's corporate project management approach.

#### *Pay Strategy*

Finally, we have representation on the Council's Pay Strategy Board. The purpose of the board is to ensure that all requests in respect of pay and grading is approved in accordance with the Council's Collective Agreement for NJC employees.

#### *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 issues arising from our work completed in the final quarter*

#### **St. Paul's CoE Aided Primary School**

A review of the key financial controls at St. Paul's CoE Primary School was undertaken covering governance, protection of people, assets and data, expenditure and income. A limited audit assurance rating was given due to a number of weaknesses identified in the areas reviewed including the maintenance of the single central record and procurement processes. We subsequently undertook a follow up review of the original report and significant progress had been made in implementing the recommendations and specifically resolution of issues relating to the single central record.

#### **D'Eyncourt Primary School**

A review of the key financial controls at D'Eyncourt Primary School was also undertaken and as above a limited audit assurance rating was given due to the significant number of weaknesses identified in the areas including controls around the authorisation of expenditure, segregation of duties, and inventory arrangements. The Governing Body and the Head Teacher accepted all of our recommendations and action plans had been agreed.

#### **Black Country Growth Hub**

This review covered the governance, partnering and project management arrangements in respect of the Black Country Growth Hub. Some of the main issues identified during our audit included:

- Growth Hub governance arrangements, organisational structure and business / decisions undertaken were not clearly evidenced or demonstrated.
- Partnership arrangements were not clearly documented or agreed through engagement within an appropriate written agreement.
- Growth Hub objectives and measurement of achievement of those objectives were not clearly and consistently stated amongst the various documentation / agreements.
- Project management, administration arrangements and risk management arrangements were not clearly defined or established.

We understand that a new full-time Head of Black Country Growth Hub has now been appointed and in conjunction with the Black Country Advice, Investment and Markets Project is working to strengthen governance, partnering and project management arrangements. The Service Director – City Economy has advised that many of the recommendations in the audit have been actioned, including a revised governance structure and the appointment of a new independent chair for the Growth Hub Strategic Board.

#### **Civic Hall Project**

This review covered the governance and project management arrangements for the Civic Halls Refurbishment Project. City Economy is the Client Department and Corporate Landlord is responsible for the delivery team, providing a one stop shop for design and construction. Some of the main issues identified during our audit included:

- An incident of non-compliance with the Council's Contract Procedure Rules by the delivery team regarding engagement of externally provided project management services.
- Lack of up to date governance and project management arrangements, and associated roles and responsibilities with limited engagement of key stakeholders and client side technical expertise.
- Changes in staff on both the client and delivery side, resulting in the need for revised project management arrangements and resources, and specifically dedicated project

support.

- Absence of embedded risk management processes and consistently recorded risks.

The Service Director – City Economy has advised that the report to Cabinet Resources Panel in July 2016 approved the revised timescale for construction and that this was amended following the results of a competitive tender process. We also understand that at the same time the governance and project management arrangements were reviewed and revised, given that the project had passed a critical milestone from development into delivery, and that the enabling works scheduled for 2017 continue to present challenges to programme and budget. The capacity and expertise in both the strategic and delivery teams is being reviewed to ensure that there are sufficient controls in place. The Director of Finance and the Service Director - City Economy plan to shortly undertake a health check review to ensure that the project is on track with implementation of the recommendations. A follow-up review will be undertaken within 2017-2018.

### **Property Services Strategic Partnership**

This was a high-level review of the Council's partnering arrangements in place with Jacobs for the provision of construction and property related professional services over the period November 2013 to March 2018 with a contract value of approximately £11.5m. Some of the main issues identified during our audit related to the historic lack of contract management and performance monitoring arrangements. The Head of Corporate Landlord has advised that whilst some action has already been taken, processes will be further strengthened in good time for consideration of future procurement / partnering arrangements.

### **Private Sect Housing - Private Landlord Enforcement**

This was a high-level review that focussed on the procedures in place within the Private Sector Housing Team for the charging and collection of fees. Some of the main issues identified during our review included finalisation of the Private Sector Housing Enforcement Policy and the establishment of procedures for the identification of income due and subsequent monitoring of income received. It is recognised that this is only one element of the overall enforcement functions undertaken and therefore the opinion expressed in the audit report should be viewed in that context. However, due to the Government's national agenda to tackle rogue and criminal landlords and the powers / duties placed on the Local Authority through the Housing and Planning Act 2016, the processes for charging and collection of fees will be of more importance as a means of deterrence and penalty. As a result management are in the process of taking action to address the issues identified.

### **Health and Safety**

This was a high-level review of the Council's Health and Safety function. The main findings of the review focussed upon the need to ensure that there was a robust audit process in place and a strengthened risk methodology. Our recommendations were all agreed and actions are in place to implement them.

### **ConnectED**

Under the Education Act 2002 a school company can be formed by a school or groups of schools to purchase goods and services collectively or sell their own expertise and/or services to other schools. Each school company will have the local authority as a supervising authority. The aim of ConnectED is to operate alongside the authority to promote partnership, school self-improvement and effective resource management across the city. The scope of our review focussed upon compliance with legislation including the School Companies Regulations 2002 and Companies Act 2016 requirements, adherence to the agreed Memorandum of Understanding, stewardship of public funds and the monitoring arrangements for ensuring

compliance with legislative requirements. We found a common theme with the Council not always being provided with timely information as required under the School Companies Regulations 2002 in order to enable it to carry out its supervisory role, or as stipulated within the Memorandum of Understanding.

Following our review a number of discussions have been held between the Council and Connected and we understand that a number of steps are being taken to build on and improve the working relationship further.

### **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. We have recently received an encouraging update following our limited assurance report on the Black Country GOLD Project and this will be further followed up as part of the European Regional Development Fund projects audit included in the 2017/18 Internal Audit Plan.

We have also received an update regarding implementation of the recommendations included in our limited assurance report on the Bilston Urban Village Advanced Works Programme. Some progress had been made with implementation of the governance and project management related recommendations by the agreed target date, In particular the specific procurement / contract related issues have been resolved. The Service Director – City Economy has advised that action is being taken to fully implement the remaining recommendations, which need to be delivered in context of the arrangements for project assurance having very recently been put in place at a Corporate level.

### *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 70% 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. Based on the revised number of audits as at 31 March 2017, 94% of the plan had been delivered.
Risk Based Audit Plan produced and available to the Council in advance of the year.	The Audit Plan was approved by the Audit and Risk Committee before the year commenced.
Recommendations measures	
90% of recommendations accepted by Council management.	All recommendations made in the 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.	The vast majority of feedback was of a positive nature.
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.