Internal Audit Plan 2015/16

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CITY OF WOLVERHAMPTON

A quick guide to the audit and assurance planning process

Step 1- Audit universe/auditable areas

Identify the audit universe (i.e. a list of themes and areas within them that may require assurance) using a variety of methods:

- Areas of potential risk identified through a variety of sources (including the strategic risk register) as having the potential to impact upon the Council's ability to deliver its objectives. Then, identify if we can gain assurance that any of these risks are being managed adequately from other sources of assurance.

- Mandatory areas, such as the managed audit work we do on behalf of the external auditors, grant claim certification etc.

- Areas where we use auditor's knowledge, management requests and past experience etc.

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Step 2 – Ranking

Where appropriate score each auditable area as a high, medium or low assurance need using the CIPFA scoring methodology of materiality/business impact/audit experience/risk/ potential for fraud.

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Step 3 – Three year cycle

List the likely medium and high assurance need themes and/or areas for the next three years. High need themed areas will be reviewed annually, medium need usually once in a three year cycle, while a watching brief will remain on the low needs.

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Step 4 - Next Years Plan

List the themes and where appropriate the types of work that will be undertaken in 2015/16 in the internal audit plan.

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A Glossary of Terms

Definition of internal auditing

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.

Governance

The arrangements in place to ensure that the Council fulfils its overall purpose, achieves its intended outcomes for citizens and service users and operates in an economical, effective, efficient and ethical manner.

Control environment

Comprises the systems of governance, risk management and internal control. The key elements include:

- establishing and monitoring the achievement of the Council's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement
- the financial management of the Council and the reporting of financial management
- the performance management of the Council and the reporting of performance management.

System of internal control

The totality of the way an organisation designs, implements, tests and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.

Risk Management

A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating the risks associated with any activity, function or process in a way that will enable the organisation to minimise losses and maximise opportunities.

Risk based audit and assurance reviews

A review that:

- identifies and records the objectives, risks and controls
- establishes the extent to which the objectives of the system are consistent with higher-level corporate objectives
- evaluates the controls in principle to decide whether or not they are appropriate and can be reasonably relied upon to achieve their purpose, addressing the organisation's risks identifies any instances of over and under control and provides management with a clear articulation of residual risks where existing controls are inadequate
- tests the effectiveness of controls i.e. through compliance and/or substantive testing
- arrives at conclusions and produces a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.

Audit Committee
The governance group charged with independent assurance of the adequacy of the internal control environment and the integrity of financial reporting.

Assurance
A confident assertion, based on sufficient, relevant and reliable evidence, that something is satisfactory, with the aim of giving comfort to the recipient. The basis of the assurance will be set out and it may be qualified if full comfort cannot be given. The Head of Audit may be unable to give an assurance if arrangements are unsatisfactory. Assurance can come from a variety of sources and internal audit can be seen as the 'third line of defence' with the first line being the Council's policies, processes and controls and the second being managers' own checks of this first line.

Internal Audit standards
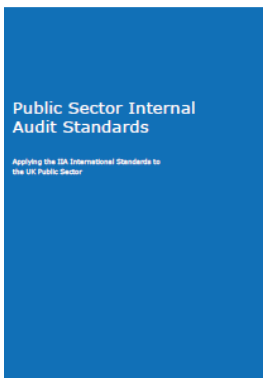
The internal audit team comply with the standards as laid out in the Public Sector Internal Audit Standards that came into effect on 1 April 2013.

1   Introduction

1.1   The purpose of internal audit is to provide the Managing Director, Section 151 Officer and Audit Committee with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the Council's agreed objectives. In order to provide this opinion, we are required to review annually the risk management and governance processes within the Council. We also need to review on a cyclical basis, the operation of the internal control systems. It should be pointed out that internal audit is not a substitute for effective internal control. The true role of internal audit is to contribute to internal control by examining, evaluating and reporting to management on its adequacy and effectiveness.

1.2   There is a statutory requirement for internal audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards'. The Council has an Internal Audit Charter which was approved by the Audit Committee in September 2013 and defines the activity, purpose, authority and responsibility of internal audit, and establishes its position within the Council. This document sits alongside the charter, and helps determine how the internal audit service will be developed.

1.3   The purpose of this document is to provide the Council with an internal audit plan, based upon an assessment of its assurance needs. The assessment of assurance needs exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The assessment will be used to direct internal audit resources to those aspects of the Council which are assessed as generating the greatest risk to the achievement of its objectives.

2   Assessing the effectiveness of risk management and governance

2.1   The effectiveness of risk management and governance will be reviewed annually, to gather evidence to support our opinion to the Managing Director, Section 151 Officer and the Audit Committee. This opinion is reflected in the general level of assurance given in our annual report and where appropriate within separate reports in areas that will touch upon risk management and governance.

3   Assessing the effectiveness of the system of control

3.1   In order to be adequate and effective, management should:

•	Establish and monitor the achievement of the Council's objectives and facilitate policy and decision making.
•	Identify, assess and manage the risks to achieving the Council's objectives.
•	Ensure the economical, effective and efficient use of resources.
•	Ensure compliance with established policies, procedures, laws and regulations.
•	Safeguard the council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.
•	Ensure the integrity and reliability of information, accounts and data.

These objectives are achieved by the implementation of effective management processes and through the operation of a sound system of internal control. The annual reviews of risk management and governance will cover the control environment and risk assessment elements, at a high level. The programme of work developed as the

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outcome of the assessment of assurance need exercise will cover the system level control activities.

3.2 The plan contained within this report is our assessment of the audit work required in order to measure, evaluate and report on the effectiveness of risk management, governance and internal control.

The framework of assurance

3.3 The framework of assurance available to satisfy a local authority that the risks to its objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation, will comprise a variety of sources and not only the work of Audit Services.

However, Audit Services holds a role within the Council as the only independent source of assurance on all internal controls. The work of Audit Services is therefore central to this framework of assurance. Therefore, Audit Services attempt to acquire an understanding not only of the Council's risks and its overall whole control environment but also, wherever possible, all sources of assurance.

In this way, Audit Services will be able to indicate whether key controls are adequately designed and effectively operated, regardless of the sources of that assurance. This role includes responsibility both for attempting to assess the assurance available to the Council from other sources, whether internal or external, and for implementing a plan of internal audit work to obtain the required assurance.

Audit Services report to the Audit Committee, which is responsible for assessing the quality of the assurance available to the Council and concerns itself with the adequacy and effectiveness of the Council's internal control environment as assessed.

This document is, in the large part, risk-based and reflects the requirement for assurance (as well as current audit knowledge and the requirement to follow up earlier work). This plan includes work undertaken directly by Audit Services, but will also, wherever possible, recognise assurance work undertaken by other parts of the Council or by external organisations as captured in the council's corporate assurance map, the adequacy of which will be assessed on an ongoing risk basis.

The annual internal audit report to the Council will include an opinion on the overall adequacy and effectiveness of the Council's control environment, and will, where appropriate, include reference to the assurance made available to the Council by other providers as well as Audit Services.

4 Assessment of assurance needs methodology

4.1 Internal audit should encompass the whole internal control system and not be limited only to financial control systems. The scope of internal audit work should reflect the core objectives of the Council and the key risks that it faces. As such, each audit cycle starts with a comprehensive analysis of the whole system of internal control that ensures the achievements of the Council's objectives.

4.2 Activities that contribute significantly to the Council's internal control system, and also to the risks it faces, may not have an intrinsic financial value necessarily. Therefore, our approach seeks to assign a relative assurance need value. The purpose of this approach is to enable the delivery of assurance to the Council over the reliability of its system of control in an effective and efficient manner.

4.3 We have undertaken our assessment using the following process:

- We identified the core objectives of the Council and, where available, the specific key risks associated with the achievement of those objectives.
- We then identified auditable themes and areas that impact significantly on the achievement of the control objectives.
- We assigned assurance need values to the auditable themes and areas, based on the evidence we obtained.

4.4   The audit plan is drawn out of the assessment of assurance need. The proposed plan covers the 2015/16 financial year and is detailed at the end of this document.

5   The assessment of assurance needs - identifying the Council's priorities and the associated risks

5.1   The following are the Council's key priorities:

- Encouraging Enterprise and Business
- Empowering People and Communities
- Re-Invigorating the City

Supported by:

- A Confident, Capable Council

The Council has identified the following strategic risks as potentially impacting upon its ability to achieve its key priorities:

• Looked After Children
• Skills for work
• Information Governance
• Medium Term Financial Strategy
• Safeguarding
• Business Continuity Management
• Economic Inclusion
• The Care Act
• Better Care Fund
• School Improvement
• FutureWorks
• Compliance with the Public Services Network
• City Centre Regeneration
• Emergency Planning
• Equal Pay
• Employee Management

Identifying the "audit universe"

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5.2   In order to undertake the assessment of assurance need, it is first necessary to define the audit universe for the Council. The audit universe describes all the systems, functions, operations and activities undertaken by the Council. Given that the key risk to the Council is that it fails to achieve its objectives, we have identified the audit universe by determining which systems and operations impact upon the achievement of the core objectives of the Council, as identified in 5.1 above, and the management objectives in 3.1 above. These auditable areas include the control processes put in place to address the key risks.

In addition to this, there are also common systems and functions which are generic to all areas, along with a number of mandatory reviews. Where deemed appropriate they may also be included in the audit universe set out in detail at the end of this document.

Assessing the risk of auditable areas within the assurance framework

5.3   Risk is defined as "The threat that an event or action will adversely affect an organisation's ability to achieve its business objectives and execute its strategies."
Source: Economist Intelligence Unit - Executive Briefing.

5.4   There are a number of key factors for assessing the degree of assurance need within the auditable area. These have been used in our calculation for each auditable area and are based on the following factors:

• Materiality
• Business impact
• Audit experience
• Risk
• Potential for fraud

5.5   In this model, the assignment of the relative values are translated into an assessment of assurance need. These ratings used are high, medium or low to establish the frequency of coverage of internal audit.

Full coverage intensity approach (key financial systems)

5.6   The key financial system reviews are undertaken at the request of, and on behalf of the external auditors (currently PwC) in order to enable them to place reliance upon the work of Audit Services and thereby reduce their workload accordingly. These reviews are undertaken using a full coverage intensity approach whereby each key financial system is audited each year at different levels of intensity as agreed in advance with the external auditors.

6   Developing an internal audit plan

6.1   The internal audit plan is based, wherever possible, on management's risk priorities, as set out in the Council's own risk analysis/assessment. The plan has been designed so as to, wherever possible, cover the key risks identified by such risk analysis.

6.2   In establishing the plan, the relationship between risk and frequency of audit remains absolute. The level of risk will always determine the frequency by which auditable themes and areas will be subject to audit. This ensures that key risk themes and areas are looked at on a frequent basis. The aim of this approach is to ensure the maximum level of assurance can be provided with the minimum level of audit coverage.

It is recognised that a good internal audit plan should achieve a balance between clearly setting out the planned audit work and retaining flexibility to respond to changing risks and priorities during the year. Traditionally Audit Services have produced quite detailed internal audit annual plans identifying all the individual audits planned for the year, an d this approach does have the advantage of providing a clear route map to the end of year opinion. However, as the year progresses it is likely that the risks and organisational priorities will change, resulting in changes to the plan. This is a particular issue within the local authority environment at this moment in time, due to the pace of change and high level of uncertainty affecting the risk environment. Therefore, for 2015/16 we are keeping the audit plan more open than previously, and, where appropriate, the new plan reflects themes and types of work rather than individual audits. More detailed working plans will be maintained operationally within Audit Services. This approach should hopefully result in a more realistic and flexible plan.

Auditor's judgement will be applied in assessing the number of days required for each audit identified in the plan.

6.3   The assessment of assurance need's purpose is to:

- determine priorities and establish the most cost-effective means of achieving audit objectives;
- assist in the direction and control of all audit work

This exercise builds on and supersedes previous internal audit plans.

6.4   Included within the plan, in addition to audit days for field assignments are:

- a contingency allocation, which will be utilised when the need arises, for example, special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested.
- a follow-up allocation, which will be utilised to assess the degree of implementation achieved in relation to key recommendations agreed by management during the prior year.
- an audit management allocation, which is used for management, quality control, client and external audit liaison and for preparation for, and attendance at various member meetings and Audit Committee etc.

7   Considerations required of the Audit Committee and senior Council management

Are the objectives and key risks identified consistent with those recognised by the Council?
Does the plan include all the themes which would be expected to be subject to internal audit?
Are the risk scores applied to the plan reasonable and reflect the Council?
Does the plan cover the key risks as they are recognised?
Is the allocation of audit resource accepted, and agreed as appropriate, given the level of risk identified?

8   How the internal audit service will be delivered

Resources required

It is estimated that approximately 1,800 internal audit days (including all fraud, assurance and contingency work) will be required to deliver the audit plan for 2015/16 as detailed at the end of this document.

Communication of results

The outcome of internal audit reviews is communicated by way of a written report on each assignment undertaken. However, should a serious matter come to light, this will be reported to the appropriate level of management without delay.

Staffing

Employees are recruited, trained and provided with opportunities for continuing professional development. Employees are also sponsored to undertake relevant professional qualifications. All employees are subject to the Council's appraisal scheme, which leads to an identification of training needs. In this way, we ensure that employees are suitably skilled to deliver the internal audit service. This includes the delivery of specialist skills which are provided by staff within the service with the relevant knowledge, skills and experience.

Quality assurance

All audit work undertaken is subject to robust quality assurance procedures as required by relevant (i.e. CIPFA, CIIA) professional standards. These arrangements are set out in the division's standards manual and require that all working papers and reports are subject to thorough review by professionally qualified accountancy (CCAB) staff.

Combined assurance

We work in conjunction with the Council's External Auditors (PwC) in order to ensure that the assurance both internal and external audit can provide, is focussed in the most efficient manner and that any duplication is eliminated.

The following reviews and associated services will be delivered corporately across the Council:

Auditable Area	Purpose
Assurance framework	An ongoing review of the assurance framework - including the use of Control Assurance Statements, risk management and other sources in the compilation of the Annual Governance Statement.
Assurance mapping	An ongoing mapping exercise between the controls identified as mitigating risk from the strategic risk register, to the sources of assurance that these controls are operating. This will play a key part in informing the Annual Governance Statement.
National fraud initiative	In accordance with Audit Commission requirements we will lead on the Council's NFI data matching exercise, including working with the successor body to the Audit Commission (the Cabinet Office).
Fraud investigations	The carrying out of investigations into areas of suspected or reported fraudulent activity across the Council.
Counter fraud activities	A series of Council wide pro-active fraud activities, including the targeted testing of areas open to the potential of fraudulent activity including maintenance of the Council's fraud risk register, hosting raising fraud awareness seminars and fraud surgeries and the production of a regular anti-fraud and corruption newsletter.
Value for money reviews	During the year discussions will be held with senior management regarding the identification of potential value for money areas, where Audit Services could be of assistance in performing value for money advice and or/reviews.
Payment transparency	An ongoing review of the Council's compliance with the government's data transparency publishing requirements will be undertaken.
Recommendation follow up	The follow up of key internal audit recommendations made across the Council in 2013/14
Development and advice	Reviewing system developments on key controls and providing advice relating to systems which are not necessarily covered by audits originally scheduled for 2014/15.
Contingency	Special projects, advice and assistance, unplanned and ad-hoc work as and when requested.
Management	Day to day management of the internal audit service, quality control, client and external audit liaison and preparation for, and attendance at various meetings.
Audit Committee	Preparation and presentation of papers for the Audit Committee and Sub-Committees, and providing advice and training to committee members as and when required.

People

Strategic Risks

Risk 1 – Looked After Children (LAC)
Risk 7 – Safeguarding
Risk 8 – Business Continuity Management

Risk 11 – The Care Act
Risk 12 – The Better Care Fund
Risk 15 – Emergency Planning

Older People

Social Workers - Financial and Performance Controls
An assessment of the processes in place to monitor expenditure and the performance of social workers, and the associated impact/benefits. 🟡

Carefirst / Agresso data
An assessment of the integrity and accuracy of the transfer of data between Carefirst and Agresso. 🟡

Children and Young People

External Placements (LAC)
A review of the procedures in operation to place looked after children externally and an assessment of measures to reduce external placements and maximise cost efficiencies. 🔴

Public Health and Wellbeing

Business Continuity / Resilience Management
To provide an overview of business continuity / resilience management processes including integration with public health. 🔴

Independent Reviewing Officer (IRO)
A review to assess that the IRO's roles and responsibilities fully comply with statutory requirements. 🟡

Disability & Mental Health

Transitions
A review of the arrangements for the transition between children's and adults' social care. 🟡

Audit planning note:
While both the Care Act and Better Care Fund are key risks the Council faces, following discussions with the Strategic Director, it was felt that audit resource would be better focussed on these areas in 2016/17.

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Place

Strategic Risks

Risk 2 – Skills for Work
Risk 9 – City Centre Regeneration
Risk 10 – Economic Inclusion

City Economy

City Centre Development
A review of the contract management and governance arrangements in respect of City Centre Development Projects (including the Interchange Project). 🔴

Black Country Growth Programme
A review of the arrangements for the administration of Growth Hub Regional Growth Fund funding where the Council is acting as the Accountable body. The review will also include the management, performance and compliance of ERDF funded programmes (Black Country Gold and Black Country Broadband). 🔴

Civic Halls Improvement Project (Physical Improvement)
A review of the processes and controls in operation for the Civic Halls Improvement Project prior to the delivery stage. 🔴

City Assets

Carbon Reduction Credits Scheme
An annual assurance review and certification in accordance with the CRC Scheme requirements. 🔴

Tenant Management Organisations
A review of the Council's arrangements for the management/monitoring of Tenant Management Organisations. 🔴

Corporate Landlord Charging and Income Collection Procedures (including Agresso compliance)
A review of the procedures relating to charging and income collection for services, including compliance with and the effective use of Agresso. 🟡

City Environment

WV Active
A review of the online payments process (e.g. membership and facility bookings) to ensure that the correct payments are being collected and transactions recorded in Agresso. 🟡

WV Creative and Visitor Economy
A review of the proposed business model and supporting governance arrangements in order to provide assurance on the delivery of outcomes and maximisation of income generation. The review will also include coverage of controls in place for staff expenditure and added value from staff activities, including performance and efficiencies.

Street Lighting
A review of the process for identifying capital schemes, costing requirements and delivery of work to ensure value for money is achieved.

Fleet Management – Hire and Replacement of Vehicles
A high level review around the process for the hire and replacement of vehicles on the Council's fleet. The review will focus on the business cases and approval mechanisms currently in place.

Education

Strategic Risks

Risk 7 – Safeguarding (Schools)
Risk 14 – School Improvement

Standards and Vulnerable Pupils

Safeguarding in schools
A review of the arrangements within schools to safeguard and promote the welfare of children.

Pupil premium
A review of the arrangements within schools to assess how effectively they employ best practice and utilise available funding to improve educational standards and narrow the attainment gap between the most disadvantaged pupils and their peers.

Governance strategy
Compliance with the recently introduced strategy and an assessment of its impact on the development of effective governing bodies in Wolverhampton schools.

Schools
A review of the governance and financial procedures in place at a sample of nursery, primary, secondary and special schools, and pupil referral units to ensure coverage of all local authority maintained schools over a predetermined cycle.

School Planning and Resources

Wolverhampton Schools' Improvement Partnership (WSIP)
A review of WSIP's management and financial arrangements where the Council acts as the company's supervising authority.

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Corporate

Strategic Risks

Risk 3 – Information Governance

Risk 4 – Medium Term Financial Strategy (MTFS)

Risk 5 – FutureWorks

Risk 6 – Compliance with Public Services Network

Risk 16 – Equal Pay

Finance

Key Financial Systems
A review of the high-level financial system controls and other key processes as agreed with the Council's External Auditors, these include: Accounts Payable, Accounts Receivable, Payroll, Budgetary Control, General Ledger, Capital Expenditure, Treasury Management, Local Taxes, Housing Rents, and Housing Benefits.

Certifications
Assurance review of grants and other certifications including both the Teachers and Pension Fund pension returns.

Medium Term Financial Strategy
Reviews of the expenditure controls (including banking) supported by a review of payments to confirm compliance with Council policies.

Equal Pay
A review of the Council's equal pay liabilities, particularly around the risks of second generation claims.

Finance (continued)

Grant Accounting and Accountable Bodies
A review of the management and control of all grants received by the Council and the administration of grants on behalf of partnering organisations.

Salary Sacrifice Schemes
A review of schemes to ensure they are administered in accordance with HMRC guidelines and employer liabilities are being effectively managed.

Governance

Information Governance
A review of the Council's Information Governance procedures to ensure it is meeting the Public Sector Network's requirements.

Equalities and Diversity
A review of the Equalities and Diversity processes in order to ensure that the Council is complying with current legislation.

Agresso Benefits Realisation
A review of the business efficiencies delivered following the implementation of Agresso against those in the original business case.

Debt Recovery Action Plan
An assessment review of the progress made against the action plan produced as part of the independent review of the Council's debt recovery processes and procedures.

Elections
A review of the Elections account to ensure that the Council is not over/under claiming for the cost of conducting a general election.

Democratic Support Management of Reports
A review of the systems, processes, and controls in place for the management of reports for all of the Council's meetings.

Mayoral Office
At the request of the Head of Service, a review of the procedures in operation within the Mayoral Office will be undertaken.

Transformation (including ICTS, Communication, and City Direct)

Strategic Risks

Risk 17 – Employee Management

Communication

External Advertising Costs
A value for money review of external advertising costs, particularly around costs associated with public notices and recruitment. ⬤

City Direct

Customer Service Transformation Programme
A consultancy based review of the service migration process that is being adopted to bring functions into the Contact Centre as part of the Customer Service Transformation Programme. ⬤

Transformation

Performance Appraisals
A review to ensure that all of the Council's service areas are undertaking performance appraisal reviews in accordance with management policies. ⬤

Human Resources System – Data Quality
A review of the quality of data held within the Agresso Human Resources system. ⬤

Corporate Projects Team
To provide advice and consultancy around the centralisation of project management functions and approaches applied across the Council. ⬤

ICTS

Assurance over the governance of the ICTS function, including the management of ICT risks and key operational controls. ⬤

Key: ⬤ high assessment of assurance need

⬤ medium assessment of assurance need

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