

City of Wolverhampton Council

Internal Audit: External Quality Assessment – Independent Validation

November 2018

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Head of Audit Services – Solihull Metropolitan Borough Council

Introduction

1. As part of the Public Sector Internal Audit Standards there is a requirement for an external assessment of the Internal Audit service to be carried out at least once every five years and that this may be satisfied by either arranging for a full external assessment or by undertaking a self-assessment with independent validation.
2. In December 2017 the Audit and Risk Committee chose the option to undertake a self-assessment with independent validation as the preferred choice, and that the independent validation would be undertaken by Steve Sparkes, the Head of Audit at Solihull Metropolitan Borough Council.
3. The Chartered Institute of Public Finance and Accountancy's (CIPFA) have produced a local government application note for the Public Sector Internal Audit Standards. The application note states that if an externally validated self-assessment is chosen, then the checklist included in the application note is recommended. Therefore, this checklist was completed by the Internal Audit team and formed the basis of the external validation.
4. As part of the external validation 1-1 interviews were held with the following:
 - Director of Finance (Section 151 Officer)
 - Chair of the Audit and Risk Committee
 - Head of Audit Services
5. A group meeting with members of the internal audit service was also held. Finally a number of key documents produced by Internal Audit were also reviewed alongside the self-assessment including:
 - Internal Audit Plan 2018/19
 - Corporate Assurance Assessments Needs 2018/19
 - Internal Audit Reports
 - Audit Review Checklists
 - Audit and Risk Committee - Annual Report 2016/17
 - Audit and Risk Committee – Terms of Reference
 - Audit Services – Counter Fraud Update
 - Internal Audit Charter – Annual Review
 - Audit Services – Quality Assurance and Improvement Programme
 - Checklist for Compliance with Internal Audit Standards
 - Annual Report on Internal Audit 2017/18

Concluding Assessment

6. ***From the evidence I have reviewed as part of the external validation of the self-assessment I can confirm that the Internal Audit function at the City of Wolverhampton Council conforms to the requirements of the Public Sector Internal Audit Standards and the requirements of the Local Government Application Note, with no material areas of non-compliance with the standards identified.***

Wider Professional Assessment

7. The Council has an in-house Internal Audit Team managed by the Head of Audit who is directly employed by Sandwell Council but shares his work time with Wolverhampton on a contract basis. This is not a shared service arrangement. It may prove useful to continue to explore the potential for more sharing across both Sandwell Council and the City of Wolverhampton Council with regards to the internal audit arrangement.
8. The Head of Audit reports directly to the Director of Finance (Section 151 Officer). The Head of Audit is experienced and a professionally qualified accountant. Many of the team also hold professional audit and accountancy qualifications and are vastly experienced in terms of internal auditing and of their employment at the council. The team operates in accordance with an Internal Audit Charter approved by the Audit and Risk Committee and management.
9. The Head of Audit is also responsible for managing Risk Management, Insurance and Health and Safety on behalf of the Council, and has responsibility for counter fraud.
10. In their 1-1 interviews both the Director of Finance and the Chair of the Audit and Risk Committee explained that they hold the Internal Audit team, and the Head of Audit in high regards for the support provided to them in their roles and across the wider Council, and were very appreciative of the work they undertake. When asked if 'sharing' the Head of Audit with Sandwell Council provided any concerns, both the Director and Chair explained this was not an issue given the wider integration and experience of other team members within Internal Audit.
11. In an engaging meeting with members of the Internal Audit team it was clearly evident they demonstrated significant knowledge of the Public Sector Internal Audit Standards, the Council and were actively engaged in working to ensure they continue to provide a modern and effective service delivery.
12. The combination of Internal Auditors knowledge of the council and the Assessment Needs Model used to support this knowledge ensures that key and changing factors are continually fed into the audit planning process, and an annual Internal Audit Plan is produced for the Audit and Risk Committee and senior management who both have input into audit coverage.
13. The Internal Audit team provides regular monitoring reports for the Audit and Risk Committee, which helps ensure they remain well informed on the outcome of individual reviews. It was noted that members of the Internal Audit team support the Head of Audit with reporting at Audit and Risk Committee and this was evident from the conversations with the Chair of Audit and Risk Committee who welcomed the wider input.
14. Audit reports were reviewed and it was felt these provided good detail for both management and the Audit and Risk Committee where appropriate to offer challenge and monitor improvements in internal control through implementation of audit recommendations.
15. The time recording system (APACE) and Audit Plan was reviewed. This was found to be detailed and in line with normal expected processes of a professional Internal Audit service.
16. Counter-fraud arrangements were discussed and reviewed in detail and were cross checked to updates provided to the Audit and Risk Committee and this was all found to be consistent with expected areas of coverage in a local authority context.

17. The Head of Audit also maintains a series of performance indicators that are reported to Audit and Risk Committee which are typically used in the Internal Audit function. These were reviewed and found to demonstrate the service is performing well.
18. Internal Audit takes a leading role in respect of risk management and the Annual Governance Statement (AGS) process. This is not unusual in local government but Internal Audit needs to ensure this does not compromise its independence. The AGS is a management function.
19. As indicated above, as part of the self-assessment exercise undertaken using the model provided by CIPFA in their local government application note for the Public Sector Internal Audit Standards, the Head of Audit had already identified a number of minor actions that would help further develop their compliance with the standards. This self-assessment was reviewed as part of this external validation process and it was felt that this provided a fair and accurate reflection of the service area.

Other Considerations

20. Whilst Internal Audit performs a typically sound counter-fraud function as would be found at most local authorities, at SMBC we have invested in training some of our investigation team in being accredited financial investigators. This has been particularly useful in social housing and internal investigations where it has been necessary to look into bank accounts etc. This service could also be used to support other aspects of council operations, i.e. Trading Standards.
21. The Audit Management system used is not being fully utilised (through choice) and whilst it was not relevant for this review against standards would probably attribute a cost to use. At SMBC we operated a similar system for which we used to pay an annual fee circa £20k. We replaced this with an in-house developed system (using excel) which provides better information at zero cost. We would be happy to demonstrate, share and support this (no charge).
22. It is recommended that the Annual Governance Process is reviewed to ensure that management complete this task rather than Internal Audit. The Annual Report on Internal Audit is the key independent document that offers an opinion on Internal Control and should be read alongside the AGS. If Internal Audit writes/presents the AGS it could be argued this compromises independence as it's a management statement. At SMBC we have a Risk Management/Governance Officer, that whilst based in Internal Audit, reports the AGS on management's behalf (through the Section 151 Officer).

Recommendations

23. Recommendation 1 – Continue with the internal assessment process ensuring the Quality Assurance and Improvement Programme (QAIP) continues and is reported to senior management and Audit Committee.
24. Recommendation 2 - Explore the potential for a more sharing across both Sandwell Council and the City of Wolverhampton Council.
25. Recommendation 3 - Consider the suggestions in the 'Other Considerations' section of this report.

Steve Sparkes
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