

Wolverhampton City Council

OPEN INFORMATION ITEM

Audit Committee

Date **18 July 2011**

Originating Service Group(s)

DELIVERY

Contact Officer(s)/

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Title/Subject Matter

ANNUAL INTERNAL AUDIT REPORT 2010/11

RECOMMENDATION

That the contents of the Internal Audit Annual Report and the overall opinion that the control environment is satisfactory be noted.

1. PURPOSE AND BACKGROUND

- 1.1 This report gives a brief description of the role of Internal Audit, the control environment within which internal audit operates and also provides a summary of the work carried out during the year to 31 March 2011. A statement of our overall opinion on the internal control environment is also given in support of the Annual Governance Statement which the Council is required to include in the Annual Report and Accounts for the year.
- 1.2 Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 1.3 The control environment comprises the organisation's policies, procedures and operations in place to:
- (a) establish, and monitor the achievement of, the organisation's objectives
 - (b) identify, assess and manage the risks to achieving the organisation's objectives
 - (c) facilitate policy and decision making
 - (d) ensure the economical, effective and efficient use of resources
 - (e) ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations
 - (f) safeguard the organisation's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption
 - (g) ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes. It encompasses elements of corporate governance and risk management.
- 1.4 The Audit Services Division accords with recognised best practice and has formally adopted the CIPFA Code of Practice for Internal Audit in Local Government which encompasses the Accounts and Audit Regulations 2011.
- 1.5 One of the main aims of the Division is to provide assurance on the Council's overall governance arrangements and the system of internal control. This is achieved in part through delivery of the Annual Audit Plan which is designed to address:
- PriceWaterhouseCoopers (PwC) Managed Audit requirements;
 - Requirements of the Audit Committee;
 - Delivery of a scheduled programme of audits on a risk based needs assessment identified through a review of key corporate risks and consultation with Directors, Chief Officers and service managers;
 - Support to the Assistant Director Corporate Services (s151 Officer) in discharging her statutory duties.

2. DETAILS

2.1 Overall Opinion

- 2.1.1 It is acknowledged that the Council is in a period of substantial change and faces a number of significant challenges in the short to medium term. In response to these challenges the Council began a significant organisational re-structure of its senior management arrangements during the year and continues to work with its partners to deliver its priorities as outlined in the Corporate Plan.
- 2.1.2 It is accepted that any large organisation having such a diverse range of activities faces considerable risks and many of these will continue over the coming year and beyond. However, whilst improvements have been identified with regard to the identification and management of the key corporate risks, it is acknowledged that the Council has implemented a Risk Management Strategy which is subject to regular review and which enables corporate directors to identify, assess, manage and monitor risks within their own work areas.
- 2.1.3 The Council operates under a governance framework, underpinned by a system of internal control which is designed to manage risk to a reasonable level. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's and Pension Fund's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.1.4 The arrangements in place to ensure that management addresses issues raised by Internal Audit are considered to be robust. Members will be aware that it has been necessary, on a relatively small number of occasions, to refer items to the Audit Committee for their consideration and input and to receive further explanation from officers.
- 2.1.5 This statement is given therefore to provide reasonable and not absolute assurance of the effectiveness of the system of control. **With the pre-existing knowledge of the Council's systems and procedures, on the basis of the work undertaken by Internal Audit and, as a result of the responses to recommendations contained in Action Plans, our assessment is that the overall system of internal control is satisfactory.**

2.2 Available Resources and Audit Plan Summary

- 2.2.1 The Internal Audit Division began the year with an establishment of 27 full time equivalent (fte) staff and a total planned resource availability of 4826 days available for audit work as at April 2010. The audit plan is drafted following consultation with Directors and Senior Managers in addition to consideration of the matters outlined in paragraph 1.5 above. The plan is then agreed with the Assistant Director Corporate Services (S151 Officer) before being submitted for approval by the Audit Committee. A copy of the plan is also provided to the Council's external auditor for their information and input as required.
- 2.2.2 The plan is monitored on an on-going basis and all changes to work included in the plan are based on our assessment of risk at the time. Inevitably, a number of changes have occurred since preparing the original audit plan and a major revision was undertaken in October 2010 based on the outturn to 30 September 2010 and also in response to the

need to move resources into alternative audit areas identified as a result of working together with Directors and Senior Managers, particularly on matters concerning governance and risk. The revised Audit Plan was reported to members at the meeting of the Audit Committee on 15 November 2010.

2.2.2 A summary of the original plan and subsequent revisions, together with the outturn to 31 March 2011, is shown in the table below:

Audit Plan 2010/11 – Summary and Outturn

SUMMARY	Outturn to 31/03/10	Original Base Plan 2010/11 (Days)	Revision as at 30 Sept 2010 (Days)	Outturn to 31/03/11
BROUGHT FORWARD AUDITS	406	172	179	455
MANAGED AUDIT	347	255	273	344
MEMBERS REQUESTS (including Selected Accounts work for the Audit Sub-Committee)	257	230	230	174
FOLLOW UP	103	189	189	49
DEPARTMENTAL SYSTEMS/REGULARITY	1230	2030	1484	1389
CONSULTANCY & ADVICE	464	485	485	365
FRAUD AND IRREGULARITY INVESTIGATIONS	169	200	200	128
WHISTLEBLOWING	39	50	50	59
NFI	23	90	90	101
MONITORING OTHER (Financial Control Assistant)	67	180	180	190
SERVICE DEVELOPMENT	130	255	204	163
MANAGEMENT & ADMINISTRATION	761	690	675	690
GRAND TOTAL	3996	4826	4239	4107

2.3 Outturn to 31 March 2011

2.3.1 A total of 382 (425 in 2009/10) pieces of audit work were delivered during the year and an opinion has been provided on 123 such audits as shown in the table below. Comparative figures for 2009/10 are also shown for information.

	2009/10	2010/11
Strong	11	13
Satisfactory	62	67
Weak	25	18
Unsatisfactory	12	13
FMSiS Met	64	12
FMSiS Not Met	<u>3</u>	<u>0</u>
Total	<u>177</u>	<u>123</u>

All audits containing weak and unsatisfactory opinions are reported to Audit Committee for information and further action/explanation as considered necessary. It should be

emphasised however that action plans and responses to audit recommendations are agreed with appropriate officers prior to reporting to Members. In addition, all investigations are also reported to members for information.

A summary of the main work areas appears below:

- 2.3.2 Brought forward audits are those audits which commenced in the previous financial year and were actually in progress at 31 March 2010. It is acknowledged that the time spent in clearing the remaining work has exceeded initial estimates and was largely due to the increased number of audits that were in progress at the end of last year. Improvements in the monitoring system have been made during the year and increased effort will be made to reduce this figure going forward.
- 2.3.3 Work has been completed on the audit of the main financial and operational systems in accordance with audit specifications agreed with PwC. **Our opinion on the key systems is that the control environment is generally satisfactory or strong**, particularly as these systems have remained generally stable and have not been subject to major change or revision. The proposed forthcoming changes to mainframe applications will however; inevitably result in a substantially increased risk profile which will need to be carefully managed. This key area of work has been subject to initial review by PwC and they have commented positively on the overall quality of the audit work undertaken. As such, it is understood that PwC will continue to place reliance on the work of Internal Audit in accordance with Managed Audit requirements.
- 2.3.4 Time spent on Members' Requests includes all time devoted to servicing the Accounts for Examination/Monitoring of Investigations Sub-Committee in addition to the main committee and responding to members' requests. Reports are submitted on a regular basis to these Committees and issues raised are dealt with accordingly.
- 2.3.5 Planned audit work across all departments (including schools) accounts for the vast majority of work undertaken and an audit brief for each piece of work is agreed with senior managers prior to commencement. Following completion of the audit, an agreed Action Plan is produced which is followed up 6 to 12 months after the original report is issued to determine the extent to which agreed actions have been properly implemented. Any areas identified as having a 'weak' or 'unsatisfactory' audit opinion are reported to Audit Committee for information and further explanation as necessary. In addition, all investigations are now subject to routine follow up in order to ensure that appropriate controls are in place to prevent further irregularity. The Division has also introduced a system for identifying savings (potential and actual) arising from audit work with £1.1m of potential savings being identified during the year. Savings identified are now included as a performance measure in the Service Plan for the Division. The lower than anticipated focus on Follow Up audits during the year was due to resource availability which has resulted in a backlog of audits requiring follow up. This will be addressed during the coming year by concentrating on the higher priority recommendations and reducing the level of testing carried out.

Members will be aware that the Division previously carried out assessments of schools under the Department for Education (formerly the Department for Children, Schools and Families - DCSF) Financial Management Standard in Schools (FMSiS) arrangements. The FMSiS scheme was abolished in November 2010 although the Division has continued to offer an assessment service to those schools who wish to continue to be assessed until an alternative scheme is introduced. In addition, the audit programme has been amended to integrate the FMSiS work into the more comprehensive schools audit programme over the next three year cycle.

- 2.3.6 The Division continues to monitor areas of income and expenditure across all services and this work makes a valuable contribution to the level of assurance provided on the control environment. During the year this work has identified savings of (2009/10 figures in brackets) 306 (111) duplicate payments to the value of £273,321.33 (£99,789.09) being avoided or recovered. In addition, savings of £175,270.63 (£88,951.94) have been identified as a result of National Fraud Initiative (NFI) matches.
- 2.3.7 The Division seeks to obtain feedback on audit work completed on behalf of clients and requests completion of a Client Survey for each piece of work undertaken. Client Surveys returned during the year confirm that clients remain satisfied with the work carried out.
- 2.3.8 The Division has continued to carry a number of vacancies throughout the year as existing staff have left and not been replaced as a result of the recruitment freeze that was introduced during the year. However, through close monitoring of the plan and prioritisation of work, the Division has managed to provide sufficient breadth and depth of coverage to provide assurance on the overall control environment.
- 2.3.9 Finally, the Council's external auditor, PwC was commissioned to carry out a review of the effectiveness of the internal audit function and role of the Audit Committee during the year. Arrangements are now in place to address the recommendations made in the report and regular updates on implementation of any actions taken will be brought before members of the Committee.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications arising from this report. However, work performed by Internal Audit, has identified cost savings /increased income in a number of instances as outlined above.
[DM/08072011/L]

4. LEGAL IMPLICATIONS

- 4.1 There are no direct legal implications arising from this report.
[MW/11072011/F]

5. EQUAL OPPORTUNITIES IMPLICATIONS

- 5.1 There are no direct equal opportunities implications arising from this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from this report.

7. SCHEDULE OF BACKGROUND PAPERS

- 7.1 Audit Plan 2010/11
Internal Audit Update and Revised Audit Plan 2010/11 (Reported to Audit Committee – 15 November 2010)