

Wolverhampton City Council

**OPEN INFORMATION ITEM**

**Audit Committee**

Date **6 July 2012**

Originating Service Group(s)

**DELIVERY**

Contact Officer(s)/

**P FARROW**

**R MORGAN**

Telephone Number(s)

**4460**

**5612**

Title/Subject Matter

**ANNUAL INTERNAL AUDIT REPORT 2011/12**

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**SUMMARY**

That 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 Authority 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”*, be noted.

## **1. PURPOSE AND BACKGROUND**

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

## **2. DETAILS**

- 2.1 This report gives a brief description of the role of Internal Audit, the control environment within which it operates and also provides a summary of the work carried out during the year to 31 March 2012.

## **3. FINANCIAL IMPLICATIONS**

- 3.1 There are no direct financial implications arising from this report. [GE/29052012/S]

## **4. LEGAL IMPLICATIONS**

- 4.1 There are no direct legal implications arising from this report. [MW/29052012/L]

## **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**

2011/12 Internal Audit Plan

# Wolverhampton City Council Annual Internal Audit Report 2011/12



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## 1. Introduction

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- 1.1 Our internal audit work for the period from 1 April 2011 to 31 March 2012 was carried out in accordance with the 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 (currently PricewaterhouseCoopers - PwC)
- 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 authority'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 authority'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. CIPFA have recently indicated that this role includes responsibility both for assessing the assurance available to the authority from other sources, whether internal or external, and for implementing a plan of internal audit work to obtain the required assurance.

- 1.2 The definition of internal audit, as described in CIPFA's Code of Practice, is set out below:

*"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".*

### **Overall Assurance**

- 1.3 As the providers of internal audit to the Council, we are required to provide the Section 151 Officer and Chief Executive 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 Section 151 Officer and Chief Executive is reasonable assurance that there are no major weaknesses in the Council's governance, risk management and control processes. In assessing the level of assurance to be given, we have taken into account:

- All audits undertaken for the year ended 31 March 2012.
- 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.

## 2. Internal Audit opinion

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2.1 We have conducted our audits in accordance with the CIPFA Code of Practice for Internal Audit in Local Government. Within the context of the parameters set out in paragraph 1.3 above, our opinion is as follows:

2.2 Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Authority 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, the work of other assurance providers or in the preparation of the Annual Governance Statement, and these are listed below:

- The External Auditors (PwC) identified a number of issues (although none were classified as significant) relating to the Council's arrangements for the preparation of claims and returns in their Certification Report. This report has been presented separately to the Audit Committee and action is underway to address them.
- A review by Patricia Hughes on the proposed strategic partnership with Axon Solutions Ltd, made a number of recommendations on the lessons to be learnt as the Council takes forward the Shared Services Transformation Programme and action is being taken to address them.
- Following a consensual review, the Information Commissioner gave only 'very limited assurance' relating to the Council's handling of subject access requests. Following this, an action plan to address these issues has been developed and is being used to monitor progress.
- The need to introduce an updated corporate risk register, and develop a Council-wide assurance map. A risk workshop has been arranged in order to start to take this forward.
- While not fundamental to the overall control environment, we gave a 'weak' rating in the following areas:
  - Continuity Planning (September 2011)
  - Verification of Redundancy Calculations (June 2011)
  - Voluntary Redundancy Scheme (November 2011)
  - Equal Pay Settlement Calculations (November 2011)
  - Volunteer Drivers (September 2011)

### **Significant 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.

- Partnership governance arrangements include responsibility for monitoring performance and managing risk. Improvements are required to the Risk Management arrangements within the major partnerships in order to ensure that the risks associated with joint working are adequately identified and managed by the Council in conjunction with the appropriate partner. A Partnership Protocol has been agreed. Work continues in collating a partnership register and a reporting mechanism whereby the status of partnerships in which the Council is involved at a significant level are monitored. This is to ensure that adequate risk management arrangements are in place.
- The Council still has to implement Single Status, a national agreement between the National Joint Council (NJC) for Local Government and Signatory Trades Unions made on 1 April 1997. The Council has a dedicated project team to implement and govern this process. During the year the Cabinet has developed and approved a strategy for addressing the risks relating to historic Equal Pay Claims and has commenced a process of implementing this also meeting the requirements under the Single Status agreement.
- The Council invited the Information Commissioner's Officer to carry out a consensual audit in order to provide the basis for an improvement plan. Basic frameworks are now in place and additional resources are being targeted at Information Governance. However, detailed policies, process and training need to be embedded to reduce the profile of this ongoing governance issue.
- Elections are due in November for Police and Crime Commissioner. There are currently many uncertainties around the likely impact on local issues, but there are likely to be significant governance issues around proper scrutiny and appropriate representation on the Police and Crime Panel, as well as ensuring local democratic accountability.
- The Council recognises that there will be significant governance issues arising from Welfare Reform and the expected increase in responsibilities and duties. There is a high level of uncertainty as to detail at this time but the Council will undertake a full risk assessment as soon as practicable.

2.3 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, in particular PwC's Grant Certification Report, the "lessons to be learnt" recommendations made on the proposed strategic partnership with Axon Solutions Ltd and the Information Commissioner's report.
- Key areas of significance, identified as a result of our audit work performed in year are detailed in section 4 of this report.

### 3. Compliance with the CIPFA Code of Practice

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We follow the 11 standards as laid out by CIPFA in their Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

### 4. Summary of work completed

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A detailed written report and action plan is prepared and issued for every review. 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 104 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        | 2011/12 | 2010/11 | 2009/10 |
|----------------|---------|---------|---------|
| Strong         | 36      | 8       | 10      |
| Satisfactory   | 62      | 50      | 53      |
| Weak           | 6       | 16      | 24      |
| Unsatisfactory | 0       | 12      | 8       |

It can be seen that there has been a general improvement in our audit opinions in 2011/12 compared with the previous two years, both in terms of the reduced number of weak and unsatisfactory reports and in an increased number of strong opinions. Whilst this to some extent reflects an improved control environment across the Council, it is considered that it also demonstrates a generally more collaborative and positive attitude to Internal Audit which we have tried to develop.

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

|                     |   |
|---------------------|---|
| <b>Strong</b>       | There is a sound system of control designed to achieve the system objectives with controls being consistently applied.  |
| <b>Satisfactory</b> | Whilst there is a basically sound system of control, there are weaknesses which may put some system objectives at risk. |
| <b>Weak</b>         | Weaknesses in the system of controls are such as to place the system objectives at risk.                                |

**Unsatisfactory**

Control is generally weak leaving the system open to significant error or abuse.

The following audit reviews were completed during 2011/12:

Key MA = Managed Audit

| Audit  | Opinion      |
|--|--------------|
| Creditors MA                                     | Strong       |
| Housing Benefits MA                              | Strong       |
| Housing Benefits MA (Q3)                         | Strong       |
| Cash and Banking MA 2011/12 (Q1&2)               | Strong       |
| Equal Pay – Project Governance                   | Strong       |
| Carbon Reduction Assurance Statement             | Strong       |
| Truancy Fixed Penalties                          | Strong       |
| Bert Williams Leisure Centre Contract Audit      | Strong       |
| Treasury Management MA                           | Strong       |
| Housing Benefits MA 2011/12 (Q1-Q3)              | Strong       |
| Housing Rents MA                                 | Strong       |
| Debtors MA                                       | Strong       |
| Assessment and Billing (Residential Care) MA     | Strong       |
| Budgetary Control MA                             | Strong       |
| General Ledger MA                                | Strong       |
| All Saints Children’s Centre                     | Strong       |
| Investments – UK Indexed Portfolio               | Strong       |
| TT / CHAPS Payment Procedures                    | Strong       |
| Equal Pay – School Engagement                    | Strong       |
|  |              |
| Pensions Payroll                                 | Satisfactory |
| Monthly Payroll Q3 Testing                       | Satisfactory |
| Council Tax MA                                   | Satisfactory |
| NNDR MA  | Satisfactory |
| Monthly Payroll MA                               | Satisfactory |
| Assessment and Billing MA                        | Satisfactory |
| Debtors MA                                       | Satisfactory |
| Capital Expenditure MA                           | Satisfactory |
| Cash Collection and Banking MA                   | Satisfactory |
| Equal Pay Claims                                 | Satisfactory |
| Single Status                                    | Satisfactory |
| Schools Admissions (Appeals)                     | Satisfactory |
| BSF – Sign Off Process (Stages 0 - 2)            | Satisfactory |
| BSF – PFI Audit                                  | Satisfactory |
| Contaminated Land Grant Determination            | Satisfactory |
| Internet and E-mail Policy                       | Satisfactory |
| Benefits Fraud (including sanctions)             | Satisfactory |
| Civic Centre and St Peter’s Car Parks            | Satisfactory |
| Card Payments                                    | Satisfactory |
| Energy Management                                | Satisfactory |
| WMITA Annual Assurance Audit 2010/11             | Satisfactory |
| Payroll Contribution Statements for WMPF 2009/10 | Satisfactory |
| Payroll Contribution Statements for WMPF 2010/11 | Satisfactory |
| TR17 Teachers Pensions Return Certification      | Satisfactory |



|   |                       |
|---|-----------------------|
| Licensed Deficit Scheme                   | <b>Satisfactory</b>   |
| Art Gallery Foreign Travel                | <b>Satisfactory</b>   |
| Art Gallery Café Takings                  | <b>Satisfactory</b>   |
| Little Civic Slade Rooms                  | <b>Satisfactory</b>   |
| Windmill Lane Children's Respite Centre   | <b>Satisfactory</b>   |
| Cash on P-Cards                           | <b>Satisfactory</b>   |
| Equal Pay – Employee Notification Process | <b>Satisfactory</b>   |
| Desktop Asset Management                  | <b>Satisfactory</b>   |
|   |                       |
| Continuity Planning                       | <b>Weak</b>           |
| Verification of Redundancy Calculations   | <b>Weak</b>           |
| Voluntary Redundancy Schemes              | <b>Weak</b>           |
| Equal Pay Settlement Calculations         | <b>Weak</b>           |
| Volunteer Drivers                         | <b>Weak</b>           |
|   |                       |
| NIL                                       | <b>Unsatisfactory</b> |

Also, 48 school audits were completed during the year, (17 Strong, 30 Satisfactory, 1 Weak and none Unsatisfactory).

**Key issues arising during the year (note these issues have been flagged to the Audit Committee throughout the year and are now summarised below)**

### **Continuity Planning**

We identified that whilst some progress had been made establishing an overall Business Continuity Plan (BCP), which was supported by a number of Service Area BCPs, it was apparent that procedures were not yet fully embedded into the Council's culture and operational arrangements. This is demonstrated by the fact that some key Service Area BCPs remain outstanding, whilst others have not been subject to review for in excess of 12 months.

### **Verification of Redundancy Calculations**

Our review concluded that procedures for calculating redundancy payments and informing staff of their potential entitlements under the voluntary and compulsory redundancy arrangements associated with the restructure of Chief Officer posts back in November 2010 were weak. This opinion was largely based on the fact that there was no verification of commencement dates or length of service by reference to HR files coupled with the fact that amendments were made to the Council's payroll and personnel system (PAYS) without reference to this documentation or suitable authorisation. In addition it was established that there was no audit trail of changes to the personnel screens on the PAYS system, so it was not possible to identify who actioned the changes and when these were made. Recommendations and actions were agreed with management in order to address all of the areas of concern for implementation before further such restructures.

### **Voluntary Redundancy Schemes**

We identified a number of issues relating to the specification of the effective dates of each scheme, location of completed application forms, retention of evidence of rejected applications, and a failure to properly complete all documentation prior to authorisation. In addition, steps had not been put in place to prevent the indirect re-employment of redundant staff (e.g. through employment agencies) and a number of redundant posts had not been formally deleted from the establishment. Significantly all recommendations were agreed with management for implementation within an agreed timescale.

### **Equal Pay Settlement Calculations**

This review was based on the position of the financial model up to September 2011. The assessment related to the data quality issues associated with the Council's Payroll system, thus resulting in material errors being identified for those calculations highlighting the worst case scenarios. These errors were immediately rectified and the revised financial model figures were reported immediately to the Single Status Members Reference Group on 3 October 2011. Based on the continual data validation work carried out by the Equal Pay Project Team, in conjunction with Service Managers and Schools, and the continual assurance work carried out by Audit Services this area would now be assessed as satisfactory.

### **Volunteer Drivers**

Procedures relating to the use of volunteer drivers were deemed to be weak on the basis of failures to ensure key documentation (e.g. CRB checks, motor insurance etc.) remained up to date. In addition it was noted that volunteer drivers exceeding 8,500 miles per year continued to be paid at the higher mileage rate, therefore realising a taxable profit, and mileage checking arrangements were in need of strengthening. Actions were agreed with management in order to address all areas of concern for implementation within an agreed timescale.

### **Managed Audits**

Managed Audits are the work we do on the Council's key financial systems and incorporate the requirements of the External Auditors, in order that they can place reliance on our work and thereby reduce their own year-end testing accordingly.

The programme of Managed Audit testing undertaken during 2011/12, has confirmed that reasonable assurance can be given that the controls in place on the key financial systems are satisfactory. Similarly, follow up work undertaken shows that recommendations are generally accepted and actions taken to improve controls where necessary.

### **School Financial Regulations**

In conjunction with Schools, Skills and Learning, we have been actively involved in a major review and update of the schools' current Financial Regulations/Standing Orders. The revised procedures were renamed Financial Procedures Rules and Contract Procedure Rules and became operational from 1 April 2012.

### **Completion of the Audit Plan**

Members will be aware that 2011/12 was a transitional year for the internal audit service, with a new Head of Audit, a systems thinking intervention and a detailed action plan put in place in order to address the issues raised by PwC in their Review of Internal Audit Effectiveness. As a result of this, while the full internal audit plan was not delivered, all of the major key and high risk areas were reviewed and there was on-going dialogue with directors and departmental management teams to take account of in-year changes as they arose, to ensure that the audit resource was targeted in the most appropriate risk based manner throughout the year.

### **Follow up of previous recommendations**

There are no instances to report where audits have been carried out where key recommendations had not been implemented as previously agreed.

### **Savings**

We monitor actual and potential savings identified during the course of our audit work and savings of £19,375 were identified during 2011/12. In addition, we continue to review the order processing and creditor payments system for potential duplicate payments. There

has been a noticeable decrease in both the number and value of duplicate payments identified since the previous year, and the number and value of duplicate payments has returned to previous levels. Consequently, it is felt that the figures reported last year were abnormal and controls now appear to be operating effectively.

- 112 duplicate payments identified and stopped prior to payment.
- Total value of £168,264.
- 82 payments to the value of £72,777 have been or are in the process of being recovered from suppliers.
- In addition a number of benefit matches reported via the National Fraud Initiative (NFI) have been processed. To date, 585 are in progress or have been investigated with 25 errors and 5 cases of fraud identified, resulting in savings of £36,777 being recovered.
- Finally, we undertake the investigation work on Single Person Discount (SPD) referrals via NFI and a total of 780 cases have been investigated. Of these, 68 cases of SPD have been referred to Council Tax for calculation and recovery of discount applied to which people are not entitled. Savings totalling £55,768 have been identified and are currently being recovered.

### **Audit development**

Members will be aware of the PWC Review of Internal Audit Effectiveness that was carried out last year and that the project plan arising from their recommendations continues to be monitored separately to this report.

As part of the Council's move towards adopting systems thinking processes, we have also undergone a systems thinking intervention and are currently going through a redesign process in order to address the issues arising from the intervention. This redesign will accompany the recommendations arising from the PWC review.

### **Fraud Investigations**

We have continued to investigate all allegations of suspected fraudulent activity, throughout the year, Details of these have been presented to, and monitored through the work of the Audit Committee's Investigations Sub-Committee.