

Wolverhampton City Council

OPEN INFORMATION ITEM

Audit Committee

Date **17 DECEMBER 2012**

Originating Service Group(s)

DELIVERY

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Title/Subject Matter

REVIEW OF THE ASSURANCE FRAMEWORK

SUMMARY

That the contents of the recent internal audit review of the Council's Assurance Framework be received and noted.

1. PURPOSE AND BACKGROUND

1.1 An audit of the assurance framework was undertaken as part of the approved annual internal audit plan for 2012/13. The assurance framework provides the Council with a simple and comprehensive method for the effective and focussed management of the principal risks to meeting its objectives. The assurance framework also provides a structure for the evidence to support the Annual Governance Statement (AGS), which is signed by the Leader of the Council and Chief Executive, and is published with the Statement of Accounts.

2. DETAILS

2.1 The conclusions of the internal audit review were that the Council had identified its key programmes and projects and there was a structured, consistent and comprehensive reporting of the progress being made on the major programmes and projects to the Senior Executive Board. Also, that there was regular communication between the Chief Executive and directors to discuss any significant issues arising

The review found the following areas where further action was required:

- The previous lack of an up to date risk register detailing the key risks faced by the Council and the measures in place to manage these risks – a Corporate Risk Register has now been introduced.
- The need to strengthen the Council's governance and risk management arrangements in respect of its key partnerships.
- The need to extend accountability surrounding the completion of the annual controls assurance statements.
- Scope for improving the risk and assurance reporting to the Audit Committee.
- The need to develop an overall assurance map.

A copy of the internal audit report accompanies this report for Members reference.

3. FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications arising from this report. The actions agreed for each development opportunity identified in the Review of the Assurance Framework report are being carried out in house within existing resources. [GE/09102012/E]

4. LEGAL IMPLICATIONS

4.1 There are no direct legal implications arising from this report (MW/09102012/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

Review of the assurance framework internal audit report

Wolverhampton City Council



Final Internal Audit Report: Review of the Assurance Framework

September 2012

Report distribution:

Simon Warren – Chief Executive

Keith Ireland – Strategic Director for Delivery

Pat Main – Section 151 Officer and Assistant
Director, Corporate Services

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2. Executive summary
3. Development opportunities



1 Introduction

An audit of the assurance framework was undertaken as part of the approved annual internal audit plan for 2012/13. The assurance framework provides the Council with a simple and comprehensive method for the effective and focussed management of the principal risks to meeting its objectives.

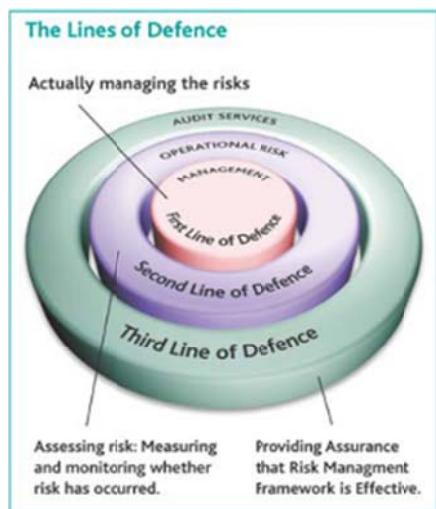
The assurance framework also provides a structure for the evidence to support the Annual Governance Statement (AGS), which is signed by the Leader of the Council and Chief Executive, and is published with the Statement of Accounts.

1.1 Scope and objectives of audit work

The objective of our audit was to deliver reasonable assurance on the adequacy and application of the assurance control framework. The control system is put in place to ensure that risks to the achievement of the Council's objectives are managed effectively. Our audit considered the Council's objectives for the area under review and the potential risks to the achievement of those objectives.

Objective	Potential Risks
That the Council has a robust assurance framework that provides a strong basis for effective challenge and better informed decision making.	<ul style="list-style-type: none">• The Council has not identified the key risks impacting on its objectives.• The key risks are not adequately managed.• The Council does not take stock of the various forms of assurance available to it and does not identify strengths and weaknesses or gaps and overlaps in these assurances.

2.1 Overall conclusion



Audit as the third line of defence

Taking account of the issues identified in this report, in our opinion the controls within the system, as currently laid down and operating, provide **satisfactory assurance** that risks material to the achievement of the Council's objectives for the system are adequately managed and controlled.

Definitions for the levels of assurance that can be given:

Limited

- a risk of objectives not being achieved due to the absence of key internal controls and a significant breakdown in the application of controls

Satisfactory

- a sufficient framework of key controls for objectives to be achieved but the control framework could be stronger and controls are applied but with some lapses

Substantial

- a robust framework of controls ensures objectives are likely to be achieved and controls are applied continuously or with only minor lapses

2.2 Key issues identified

We have identified five **amber** development opportunities, arising from the following:

- The previous lack of an up to date risk register detailing the corporate risks faced by the Council and the measures in place to manage these risks.
- The need to strengthen the Council's governance and risk management arrangements in respect of its key partnerships.
- The need to extend accountability surrounding the completion of the annual controls assurance statements.
- Improving the risk and assurance reporting to the Audit Committee.
- The need to develop an overall assurance map.

Agreed actions have been made for these areas and they are shown in the main body of the report. Consideration should be given to, where appropriate, feeding any issues raised in this report, into the relevant risk management process in order to help manage any associated risks down. Also, the key issues arising from this report will be reported to the Audit Committee as part of their on-going assurance role.

We have also identified one further development opportunity classified as **green** and this is detailed in the main report.

2.3 Examples of good practice

We also found the following examples of good practice in the assurance framework, as achieved through the effective design and application of controls:

- The Council has identified its key programmes and projects and there is a structured, consistent and comprehensive reporting of the progress being made on the Council's major programmes and projects to the Senior Executive Board.

There is regular communication between the Chief Executive and directors to discuss any significant issues arising.

2.4 Acknowledgement

A number of staff gave their time and co-operation during the course of this review. We would like to record our thanks to all of the individuals concerned.

3 Development opportunities and suggested actions

Priority rating for issues identified

Red action is imperative to ensure that the objectives for the area under review are met.

Amber requires action to avoid exposure to significant risks in achieving the objectives for the area under review.

Green action is advised to enhance risk mitigation, or control and operational efficiency.

No	Priority	Development opportunity	Agreed action	Responsibility	Target date
3.1	Amber	<p>Corporate Risk Register</p> <p>The Council's corporate risk management strategy (2011/12) and framework sets out the process to support the assessment and treatment of its risks. The strategy supports an enterprise wide risk management framework and requires risks to be captured in risk registers at corporate, directorate, assistant directorate and head of service/ operational levels of the organisation.</p> <p>Although risk registers have been established and updated at a majority of these levels, there was not an up to date corporate risk register in place for some time. During the previous 12-18 months, workshops with senior officers were held to identify the Council's strategic risks, with the last workshop taking place in May 2012, where a number of risks were confirmed. With a corporate risk register taking shape in August 2012.</p> <p>Implication:</p> <p>In the absence of an up to date corporate risk register, the Council may be unaware of the significant risks that exist, which can impact on the achievement of its corporate objectives. If these risks are not identified, assessed and regularly reported, senior management and Members may not have a clear or correct indication of the level of risk or control that currently exists and the measures in place to manage the risk.</p>	<p>The report concluding on the risks confirmed at the May 2012 risk workshop has been submitted to the joint Senior Executive Board (SEB) and Corporate Delivery Board (CDB) and the corporate risks and assignment of risk owners has been agreed.</p> <p>Following the approval of the corporate risks, the risk management framework will continue to be followed to evaluate the risks and identify the measures in place/ required to manage the risks and a strategic risk register regularly updated.</p> <p>The corporate risk register will then be reported to the SEB and CDB on a regular basis identifying the progress being made in the management of these risks, and flagging any emerging or increasing key risks.</p>	Head of Risk Management and Insurance	Actioned

No	Priority	Development opportunity	Agreed action	Responsibility	Target date
3.2	Amber	<p>Partnership governance and risk</p> <p>Partnerships are increasingly common and increasingly important to the Council, in order to deliver the corporate plan and respond to the Localism agenda. These partnerships take many forms. For example, formal arrangements such as strategic service delivery partnerships, statutory partnerships and looser, informal relationships with community groups or the 'third sector'.</p> <p>Although each of these partnerships is formed to generate beneficial outcomes they also carry different types of risks and governance can be problematic.</p> <p>The Council's Annual Governance Statement has highlighted weaknesses in the area of partnership governance and management of partnerships for the previous two years. Although a partnership protocol has been agreed, progress in the completion of a partnership register and the management and reporting of partnership risks has been slow.</p> <p>Implication:</p> <p>Without a comprehensive and up to date partnership register and associated risk registers, the Council may be unable to obtain sufficient assurance that all significant risks associated with its partnerships have been identified and are being appropriately managed.</p> <p>In addition, some of the Council's partnerships have been in place for a number of years and the 'health' and governance arrangements of these partnerships have not been systematically reviewed to ensure they continue to contribute effectively to the corporate priorities.</p>	<p>The Council will adopt a revised systematic and consistent approach to identifying its significant partnerships.</p> <p>Once the significant partnerships have been identified, a systematic review of the governance arrangements and the 'health' of each partnership will be carried out to ensure they continue to contribute to the corporate priorities and provide value for money. The findings of the reviews and the risks associated with these partnerships will then be reported to officers and Members with portfolio responsibilities.</p> <p>This work will now be assumed and progressed by Risk Management and Insurance Services supported by Internal Audit.</p> <p>** The successful implementation of this action will require cross-Council support, in particular towards the start of the exercise, in both identifying and understanding the Council's significant partnerships.</p>	<p>** The Head of Risk Management and Insurance supported by the Head of Audit</p>	<p>March 2013</p>

No	Priority	Development opportunity	Agreed action	Responsibility	Target date
3.3	Amber	<p>Role of the Audit Committee</p> <p>One of the responsibilities of the Audit Committee (as set out in the Council's constitution) is to oversee the Council's corporate governance arrangements, and to provide the Council with independent assurance of the adequacy of the risk management framework and the associated internal control environment.</p> <p>The Audit Committee receives annual reports from each directorate, which provide the committee with a certain level of detail of the governance and operational risk management arrangements in place within each service group. However, the level of detail provided differs between directorates, and the risks presented are not consistently clearly identified or measurable. Corporate risks facing the Council, as developed through the use of a corporate risk register, and assurances over partnership governance and associated risk management arrangements have not been reported to the committee.</p> <p>Implication:</p> <p>The Audit Committee may be unable to satisfactorily discharge its duties as it may not fully understand the key risks facing the Council. This has led to a fragmented approach to their work programme, and in their awareness of the Council's risk appetite and risk tolerance levels. Knowledge of the key risks will also help the committee discharge its other responsibilities such as reviewing the work of both internal and external audit and in reviewing the Annual Governance Statement.</p> <p>Understanding the Council's corporate risks, partnership arrangements and the overall risk profile will assist the Audit Committee in taking a more coordinated approach to its assurance statements.</p>	<p>The corporate risk register will be presented to the Audit Committee on a regular basis in order to help drive their agenda. The committee will then be tasked with reviewing these risks and seeking assurances that the actions being undertaken to manage them are timely and effective.</p> <p>Where there are concerns or issues associated with key risks, the committee will be asked to consider obtaining direct assurances from line management by 'calling in' the risk owners in order to gain a better understanding of the risk, and ensure that the appropriate action is being taken to mitigate them.</p> <p>The Audit Committee will also be asked to consider the Council's key partnerships and how they contribute to good corporate governance and ensure appropriate arrangements to manage partnership risks are in place. This will need the successful implementation of agreed action No. 2 above, in order to progress</p>	Head of Risk Management and Insurance	March 2013

No	Priority	Development opportunity	Agreed action	Responsibility	Target date
3.4	Amber	<p>Assurance mapping</p> <p>An assurance framework provides an organisation with a simple and comprehensive method for the effective and focussed management of the principal risks to meeting its objectives.</p> <p>The Council obtains its assurances about its risks from numerous sources including external audit, internal audit, management, risk management activities and from various other groups and bodies.</p> <p>At present, while there is an assurance framework in place, charting as a whole, where the Council obtains its assurance on specific key risks, we believe that this can be strengthened to provide greater assurance to the Council.</p> <p>Implication:</p> <p>Without a specific strategic assurance map the Council is unable to readily:</p> <ul style="list-style-type: none"> • identify and demonstrate all the sources of assurance available to it, • assess the quality of each in providing assurance, and • identify any gaps, duplication or overlaps in assurance. 	<p>A revised assurance framework will be developed (gradually replacing the existing approach), which will be underpinned by a strategic assurance map, in order to provide a structured way of deciding the layers of risk assurance already in place, who provides it, the quality of the assurance, and what additional assurance may be required.</p>	<p>Head of Risk Management and Insurance supported by the Head of Audit</p>	<p>March 2013</p>

No	Priority	Development opportunity	Agreed action	Responsibility	Target date
3.5	Amber	<p>Controls assurance statements</p> <p>In order to support the Annual Governance Statement, which is published with the Statement of Accounts, and signed by the Leader of the Council and the Chief Executive, the Council requires the three directors, the s151 Officer, the Assistant Chief Executive and the Monitoring Officer to complete and sign a controls assurance statement for their respective service areas. There is no current requirement for assistant directors to sign such a statement.</p> <p>The controls assurance statements currently include eight fairly standard assurances to be given by each director, supported by a general prepared statement of the key sources of assurance available to them, which they have used in signing off the statements. The statements do not explicitly identify any areas where improvements are required and hence no actions requiring implementation have been individually identified. There is also no requirement for a forward looking statement, i.e. agreeing to comply with the statements requirements in the year ahead, to be completed and signed.</p> <p>Implication:</p> <p>With the consolidation of the wide ranging areas of internal control across the Council into eight general statements of assurance, and without specific evidence demonstrating compliance against each statement made, there is a potential for weaknesses in certain areas to be overlooked, resulting in a potential for a lack of action being taken to address the issue. Issues that are not specifically addressed include partnerships (both governance and risks), business continuity management and supply chains, fraud and corruption, complaints monitoring, information management etc.</p> <p>Also, accountability could be enhanced across the Council by assistant directors being asked to complete and sign an assurance statement, and by incorporating a forward looking statement into each assurance statement.</p>	<p>The Council will refresh and extend the controls assurance statement process for 2012/13 by:</p> <ul style="list-style-type: none"> • Requesting positive evidence in support of each statement against which assurance is being sought. • Identifying the action that is being/ will be taken on any area where positive assurance has not been given. • Obtaining assurance that the systems and controls will continue to operate in the future (i.e. a forward looking statement). • Requiring the governance group or other officers to review and where appropriate challenge the assurances being given. • Requiring assistant directors to complete and sign a controls assurance statement. • Seeking a completed controls assurance statement from Wolverhampton Homes. <p>These changes will be introduced to CDB early in 2013, in order to ensure that they understand and are fully aware of the changes, and their new responsibilities.</p>	Head of Risk Management and Insurance supported by the Head of Audit	January 2013

No	Priority	Development opportunity	Agreed action	Responsibility	Target date
3.6	Green	<p>Local code of corporate governance</p> <p>The Council has approved and adopted a Local Code of Corporate Governance which is consistent with the six principles of the CIPFA/SOLACE framework “<i>Delivering Good Governance in Government</i>”.</p> <p>Each of these principles has a number of supporting principles which translate into a range of specific requirements which are reflected in the Council’s local code of governance. The framework indicates that to achieve good governance, the Council should be able to demonstrate that it is complying with the core and supporting principles contained within this framework. The code notes that the Council will:</p> <ul style="list-style-type: none"> • Monitor all arrangements in place for practical effectiveness. • Review practices, procedures and guidelines on a regular basis following completion of the Annual Governance Statement. • Develop an action plan to identify areas of the Code where further work is required. <p>However, there is no formal mechanism in place to regularly establish and demonstrate the extent to which the Council complies with the framework. This is important as there are many areas of the Council that have been subject to recent change, and the pace of this change is only likely to increase.</p> <p>Implication</p> <p>In the absence of a process for regularly identifying and assessing the level of compliance with the Local Code of Corporate Governance, the Council is unable to explicitly demonstrate to what extent it meets the required criteria to achieve good corporate governance. There is also a risk that key elements may be overlooked.</p>	<p>The Council will task a cross directorate officer group to:</p> <ul style="list-style-type: none"> • Identify systems, processes and documentation that provide evidence of compliance with the CIPFA/SOLACE framework. • Assess to what extent the Council complies with the principles. • Identify the officers, members and bodies responsible for monitoring and reviewing the systems, processes and documentation identified. • Identify the issues that have not been adequately addressed and assign responsible officers for undertaking the required actions. • Draw up an action plan and monitor its delivery on behalf of the Audit Committee. 	<p>Head of Legal Services supported by the Head of Risk Management and Insurance, and the Head of Audit</p>	<p>March 2013</p>

Limitations inherent to the internal auditor's work

This report has been prepared solely for Wolverhampton City Council in accordance with the terms and conditions set out in the terms of reference. Internal audit does not accept or assume any liability of duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without prior consent. Internal audit has undertaken this review subject to the limitations outlined below.

Internal control

- Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Responsibilities of management and internal auditors

- It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.
- Internal audit endeavours to plan audit work so that it has a reasonable expectation of detecting significant control weakness and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- Accordingly, these examinations by internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist.