

Wolverhampton City Council

**OPEN INFORMATION ITEM**

Audit Committee

Date **11 March 2013**

Originating Service Group(s)

**DELIVERY**

Contact Officer(s)/

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Telephone Number(s)

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Title/Subject Matter

**PWC REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT –  
FOLLOW UP REPORT**

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**SUMMARY**

That the results of PwC's Follow up Report on Internal Audit Effectiveness be noted.

## 1. **PURPOSE AND BACKGROUND**

- 1.1 Members will recall that the Council's external auditor, PwC was commissioned to undertake a review of the effectiveness of the internal audit function and the role of the Audit Committee, which was reported upon in 2011. In 2012 the Committee requested that PwC undertake a follow up report in order to give the Committee assurance that action had been taken to address their recommendations.

## 2. **DETAILS**

- 2.1 PwC revisited the Council's Internal Audit Section in December 2012 in order to follow up the recommendations from their 2011 report on the Effectiveness of Internal Audit:

Ref	Recommendation	Priority
1	Address inefficiencies in the internal audit plan.	High
2	Create a more risk-focused internal audit plan.	High
3	Provide pro-active fraud awareness training.	Medium
4	Create investigative specialism within the internal audit team.	Medium
5	Consideration of open plan environment.	Low
6	Consideration of paid accounts process.	High
7	Introduction of timescales for internal audit reporting.	Low
8	Increase service involvement in clearing reports.	High
9	Introduction of automated audit software and consideration of further specialisms.	Medium
10	Introduction of Key Performance Indicators and a robust quality assurance framework.	Medium
11	Improve compliance with the CIPFA Code of Internal Audit.	Medium
12	Introduction of a new internal audit Charter.	High
13	Consideration of Audit Committee preparation and practice.	High
14	Provision of Member training.	Medium
15	Introduction of CIPFA guidance compliant Audit Committee role and remit.	High
16	Consideration of independent membership of Audit Committee.	High

They were able to report that 15 of the 16 recommendations they originally made had been implemented. The only outstanding recommendation related to number 3 around the need to prioritise and implement the actions identified through the CIPFA 'Managing the Risk of Fraud – Red Book 2' self-assessment, which was underway. It has been agreed that this will be completed by 31 March 2013.

**3. FINANCIAL IMPLICATIONS**

3.1 There are no direct financial implications arising from this report. [GE/07022013/U]

**4. LEGAL IMPLICATIONS**

4.1 There are no direct legal implications arising from this report. (MW/20022013/S)

**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 PwC Internal Audit Effectiveness Report – January 2013

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# *Wolverhampton City Council*

## Internal Audit Effectiveness

January 2013

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# *Executive Summary*

## Introduction

The Comprehensive Spending Review (“CSR”) on 20 October 2010, announced cuts across local government equating to 7.1% per annum until 2013/14, placing a significant burden for savings on authorities. These savings will have to be met across all services with pressure placed firmly on back office functions to prove their value.

It was in the lead up to this announcement that PwC was engaged to independently and objectively assess the effectiveness of the internal audit function of Wolverhampton City Council against best practice.

Our initial review was commissioned by the Chief Executive, Chief Financial Officer and Director for Regeneration & Environment to consider the effectiveness of the internal audit function and the role of the Audit Committee in January 2011.

Our report identified a number of areas for development across the internal audit team, and to working practices with both the Audit Committee and members of the Council’s Corporate Development Board (“CDB”).

This report provides an update on our findings and an independent view of the progress of the internal audit function against the recommendations.

One low risk recommendation has been made in relation to refreshing the Councils response to fraud against the Chartered Institute of Public Finance and Accountancy’s (“CIPFA’s”) Red Book 2 publication. However, given the substantial progress made in the area of counter fraud this is considered low risk.

Internal Audit Services have made significant progress against our initial recommendations and this is reflected in the change of the focus of the 13/14 audit plan, as well as positive feedback received in the department as a result of the teams’ commitment to developing and progressing the service.

## Summary of Recommendations

The table below provides a summary of the recommendations raised within our initial report. An update on each of these is provided below.

Ref	Recommendation	Priority
1	Address inefficiencies in the internal audit plan.	High
2	Create a more risk-focused internal audit plan.	High
3	Provide pro-active fraud awareness training.	Medium
4	Create investigative specialism within the internal audit team.	Medium
5	Consideration of open plan environment.	Low
6	Consideration of paid accounts process.	High
7	Introduction of timescales for internal audit reporting.	Low
8	Increase service involvement in clearing reports.	High
9	Introduction of automated audit software and consideration of further specialisms.	Medium
10	Introduction of Key Performance Indicators and a robust quality assurance framework.	Medium
11	Improve compliance with the CIPFA Code of Internal Audit.	Medium
12	Introduction of a new internal audit Charter.	High
13	Consideration of Audit Committee preparation and practice.	High
14	Provision of Member training.	Medium
15	Introduction of CIPFA guidance compliant Audit Committee role and remit.	High
16	Consideration of independent membership of Audit Committee.	High

# *Follow up of Recommendations*

## *1. Audit Plan Inefficiencies*

### *Original agreed action*

Address inefficiencies in the internal audit plan.

### *Status update*

No prior year audits have been rolled forward to the 12/13 Corporate Assurance Plan and follow up has been limited to prior year audit work only in order to release efficiencies.

Recommendation tracking software has not been introduced however; the Head of Internal Audit feels that the reduced number of follow ups has made the exercise more manageable. In the mid-long term automated audit software, TeamMate is planned to be introduced, and the follow up functionality within this is being explored which will remove some of the manual burden of following up actions.

A breakdown of planned audit days has been reviewed the time allocated to service planning including management, mentoring, supervision and planning has now reduced from 35% to 7% of total audit days, which represents a significant reduction in non chargeable time.

**Action considered implemented.**



## **2. Risk Management and the Preparation of the Internal Audit Plan**

### **Original agreed action**

Create a more risk-focused internal audit plan.

### **Status update**

The 2012/13 Corporate Assurance Plan contains a risk focussed internal audit plan and now provides more detailed information to the Audit Committee on the nature of the reviews.

The Assurance Plan has been developed with reference to Zurich Municipal's "Tough Choices" Local Government Risk Ranking exercise and the Corporate Risk Register.

The Corporate Development Board ("CDB") received the audit plan on the 21<sup>st</sup> March 2012 in advance of the audit committee so they had a chance to input to the plan development.

In addition the CDB have been presented to, on the new "Systems Thinking" approach to Internal Audit in December 2012, in order to improve working relationships with Directors. The new Internal Audit working papers also require the team to clear actions and reports with services prior to presenting finding to the audit committee.

The plan was presented to the Audit Committee on 16<sup>th</sup> April 2012 at the beginning of the financial year and the Internal Audit function and audit committee has satisfied itself that there are no areas of unexposed risk.

Changes to the plan are monitored by the Internal Audit team and these are brought to the attention of the Audit Committee in quarterly update reports. In addition, where a change is considered significant the chair of the Audit Committee is asked to approve this in the pre-meetings held one month prior to committees.

### **Action considered implemented**

### 3. Fraud Awareness Training

#### Original agreed action

Provide pro-active fraud awareness training.

#### Status update

A number of measures have been put in place to raise fraud awareness and develop an anti fraud culture;

A PowerPoint presentation “Widening the Fraud Agenda” has been shown to the Audit Investigations Sub Committee, and an open invitation is to be sent to managers and directors to attend a further presentation early in 2013.

A Counter Fraud Unit has been established within Audit Services with a dedicated resource, and an e-learning fraud training package has been bought jointly with Sandwell Metropolitan Borough Council.

The March audit staff update included indicators of fraud, what to do if you suspect a fraud, and who to raise this with.

The Principal Fraud Officer from the Council shares information gathered through the West Midlands Fraud Group within the Audit Services Fraud Group. The Council is also working with Birmingham City Council on a mini National Fraud Initiative exercise as well as working with Wolverhampton Homes, sharing information to further the fraud agenda.

An action plan has not been put in place against the CIPFA Red Book 2 recommendations. The Council has however produced action plans against the Audit Commissions “Protecting the Public Purse” document and the Department for Communities and Local Governments (“DCLG”) “Ten actions” document. The two action plans have been presented to the Audit Investigations Sub Committee and are planned to be merged into one overarching document.

However, it was noted that the DCLG document refers to the need to “implement national counter fraud standards developed by CIPFA” the response to this is that the self assessment against Red Book 2 needs to be refreshed. Therefore, this remains outstanding, although it is considered low risk as there is evidence of significant action being taken in the area of counter fraud and raising awareness.

Given the number of further actions identified through the two action plans it may be useful to allocate dates to the actions so that these can be prioritised.

#### Action plan

Finding rating	Agreed action	Responsible person / title
Low ●	Further actions identified through the CIPFA and DCLG self assessments should be prioritised and implemented including refreshing the Red Book 2 self assessment.	Peter Farrow, Head of Audit  <b>Target date:</b> March 2013

#### **4. Investigative Training**

##### **Original agreed action**

Create Investigative Specialism within the Internal Audit Team.

##### **Status update**

The lead officer in the Counter Fraud Unit has attended CIPFA's Certificate in Investigative Practice Qualification.

The lead Fraud Officer from the Council also shares information and best practice gathered through the West Midlands Fraud Group within Audit Services and the Council is working with Birmingham City Council on a local data matching exercise and with Wolverhampton Homes.

**Action considered implemented**

#### **5. Operating Environment**

##### **Original agreed action**

Consideration of open plan environment.

##### **Status update**

While still open plan, a separate area has been screened off within the open plan environment for use solely by Internal Audit staff and investigations/fraud files are now stored in a secure location with the key kept by the Principal Fraud Officer.

The appropriateness of an open plan environment has been considered but the Council has determined that this suits the Internal Audit agenda of working with the "client" and so this is not planned to be changed.

**Action considered implemented**

## **6. Paid Accounts**

### **Original agreed action**

Consideration of paid accounts process.

### **Status update**

Although paid accounts work has not been totally eliminated the process has been reduced significantly and absorbed into the wider transparency agenda.

The Audit Investigations Sub-Committee can now review a reduced sample of paid accounts should they choose to do so, but a greater focus has been placed, and assurance is being taken from the extended creditors work carried out as part of the Managed Audits programme, and further comfort is taken through publishing of expenditure on the Councils website and reporting back of any 'Armchair Auditor' requests.

**Action considered implemented**

## **7. Internal Audit Reporting Timescales**

### **Original agreed action**

Introduction of timescales for internal audit reporting.

### **Status update**

A new style audit report has been developed and a target of issuing draft reports within two weeks of the completion of fieldwork introduced.

The targets were committed in writing in the 16<sup>th</sup> April 2012 audit committee paper and are planned to be reported at the end of the financial year.

**Action considered implemented**

## **8. Engagement with the Corporate Management Team**

### **Original agreed action**

Increase service involvement in clearing reports.

### **Status update**

The new style working papers require all reports to be agreed with management prior to being issued to the Audit Committee.

Templates contain “suggested” actions which are reported as “agreed” actions once agreed with the service areas. This is part of the new systems thinking, customer focussed stance, employed by Internal Audit.

**Action considered implemented**

## **9. Working Practices and Skills Mix**

### **Original agreed action**

Introduction of automated audit software and consideration of further specialisms.

### **Status update**

A new and streamlined approach to undertaking audit reviews has been introduced, with much of this being taken following the recent systems thinking intervention and redesign in order to help realise efficiencies.

Sandwell Metropolitan Borough Council Audit have purchased TeamMate (an audit management system) and the Council are looking into the possibility of introducing this into Wolverhampton in the medium to long term, which will help release further efficiencies.

An audit services skills matrix has been put together to identify areas of specialism within the existing team and an on-line social networking site the “knowledge hub” has been set up to share knowledge and information. All staff are going through a development process and an analysis of any training gaps is being identified.

Greater use of regular audit and related, publications is also being encouraged.

**Action considered implemented**

## ***10. Key Performance Indicators, Quality Assurance and Reporting to the Audit Committee***

### **Original agreed action**

Introduction of Key Performance Indicators and a robust quality assurance framework.

### **Status update**

With regards to the quality assurance framework, there is a working paper manual in existence, however there are no plans to continue to update this in its current format as it is felt to be unwieldy and not widely used. Instead the working papers have been refreshed; each paper has a date field to evidence when work is signed off as completed, and when reviewed by a second officer. In addition all actions are agreed with services as mentioned in response to action eight above.

As reported in response to action seven above, performance targets have been set and agreed to be reported to the Audit Committee, targets are planned to be reported at the end of the financial year with the possibility of interim reporting being introduced in the future.

Audit Committee pre meetings are now scheduled with the chair of the Audit Committee one month prior to each meeting to discuss reporting, and ensure members are adequately informed.

### **Action considered implemented**

## **11. Compliance with the CIPFA Code of Internal Audit**

### **Original agreed action**

Improve compliance with the CIPFA Code of Internal Audit.

### **Status update**

The Terms of Reference for Internal Audit now define the role of internal audit, fraud and consultancy work. The Terms of Reference have been prepared in line with the example given in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

The Audit Services budget has been reviewed and savings identified by reducing staff numbers through not filling vacant posts, and through the increased focus on high risk areas. The savings will be used to buy in specialist resource as needed through a mixed economy approach. This will be factored into the 13/14 budget which sees a significant reduction from the 12/13 budget. The proposed budget is currently being discussed and agreed between the Head of Audit, the S151 Officer and the Strategic Director for Delivery.

Audit staff have been reminded to make declarations of interest in line with the Councils overarching policy (for all council employees), although it was noted that there have been no declarations made.

This was discussed with Peter Farrow (Head of Audit) but was due to no declarations needing to be made rather than the absence of the process. He stated that all reviews are looked at on a case by case basis before the work starts in addition to the declarations process.

Audit staff have been reminded on the policy with regards to the retention of and access to documents in line with the Freedom of Information Act through the March Staff Update.

**Action considered implemented along with responses to actions two, three and ten.**

## **12. Internal Audit Mandate**

### **Original agreed action**

Introduction of a new Internal Audit Charter.

### **Status update**

The Internal Audit Charter was incorporated into a new terms of reference for Internal Audit which included the reporting lines to the Chief Executive and Audit Committee.

**Action considered implemented**

### **13. Audit Committee Practice**

#### **Original agreed action**

Consideration of Audit Committee preparation and practice.

#### **Status update**

A timetable of Audit Committee pre-meetings between the Internal Audit lead and the Audit Committee chair is followed. Reports are produced in advance and posted onto the Reports Mailbox, an internal process enabling all senior officers to see and comment on reports before they are issued.

The Committee now not only receive a list of reviews completed, but also a summary of findings along with narrative on key control issues, so that members are aware of control effectiveness within areas of the Authority and the plans to improve this.

#### **Action considered implemented**

### **14. Member Training**

#### **Original agreed action**

Provision of Member training.

#### **Status update**

An Audit Committee Skills Audit exercise has been undertaken, and a training plan is being developed to address any gaps.

As a result of the Skills Audit training has already been provided in the areas of treasury management and risk management. The Committee are also provided with copies of each issue of CIPFA's Audit Committee Update.

#### **Action considered implemented**



### ***15. Role of the Audit Committee***

#### **Original agreed action**

Introduction of CIPFA guidance compliant Audit Committee role and remit.

#### **Status update**

The Audit Committee Terms of Reference and delegations have been amended in line with CIPFA guidance.

**Action considered implemented**

### ***16. Independent Audit Committee Membership***

#### **Original agreed action**

Consideration of independent membership of Audit Committee.





#### **Status update**

It has been agreed by the Councils Special Advisory Group to recruit two independent members into the Audit Committee, an appointments process is to commence once Human Resources guidance has been issued, with members to be in place from 1<sup>st</sup> April 2013.

**Action considered implemented**

# Appendix A - Individual risk ratings

Each of the recommendations raised have been categorised according to risk as follows:

Risk rating	Assessment rationale
<b>Critical</b> 	<p>A control weakness that could have a:</p> <ul style="list-style-type: none"> <li>• <i>Significant impact in the achievement of the organisation’s operational objectives as set out in its operational plan; or</i></li> <li>• <i>Material financial impact on the organisation (quantify); or</i></li> <li>• <i>Significant breach in laws and regulations resulting in severe fines or consequences; or</i></li> <li>• <i>Critical impact on the reputation of the organisation which could threaten its future viability.</i></li> </ul>
<b>High</b> 	<p>A control weakness that could have a:</p> <ul style="list-style-type: none"> <li>• <i>Significant impact in the achievement of the objectives of the system, function or process under review as set out in the terms of reference; or</i></li> <li>• <i>Significant financial impact on the organisation (quantify); or</i></li> <li>• <i>Breach in laws and regulations resulting in fines and consequences which are significant to the system, function or process under review but not the overall organisation; or</i></li> <li>• <i>Significant impact on the reputation of the organisation.</i></li> </ul>
<b>Medium</b> 	<p>A control weakness that could have a:</p> <ul style="list-style-type: none"> <li>• <i>Moderate impact in the achievement of the objectives of the system, function or process under review as set out in the terms of reference; or</i></li> <li>• <i>Moderate financial impact on the organisation (quantify); or</i></li> <li>• <i>Breach in laws and regulations resulting in fines and consequences which impact but are not significant to the system, function or process under review; or</i></li> <li>• <i>Moderate impact on the reputation of the organisation.</i></li> </ul>
<b>Low</b> 	<p>A control weakness that could have a:</p> <ul style="list-style-type: none"> <li>• <i>Minor impact on the achievement of the objectives of the system, function or process under review as set out in the terms of reference; or</i></li> <li>• <i>Minor financial impact on the organisation (quantify); or</i></li> <li>• <i>Minor breach in laws and regulations with limited consequences; or</i></li> <li>• <i>Minor impact on the reputation of the organisation.</i></li> </ul>



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