

CITY OF
WOLVERHAMPTON
COUNCIL

Audit and Risk Committee

10 June 2019

Report title	Annual Internal Audit Report 2018-2019	
Accountable director	Claire Nye, Director of Finance	
Accountable employee(s)	Peter Farrow Tel Email	Head of Audit 01902 554460 peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable	

Recommendation for noting:

The Committee is asked to note:

1. 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 council 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”

1.0 Purpose

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

2.0 Background

- 2.1 This report gives a brief description of the role of Internal Audit, the control environment within which it operates, its compliance with the Public Sector Internal Audit Standards and a summary of the work carried out during the year to 31 March 2019.

3.0 Progress, options, discussion, etc.

- 3.1 Quarterly internal audit update reports will continue to be presented to the Committee throughout the year.

4.0 Financial implications

- 4.1 There are no financial implications arising from the recommendation in this report.
[GE/22052019/B]

5.0 Legal implications

- 5.1 There are no legal implications arising from the recommendations in this report.
[TS/22052019/Q]

6.0 Equalities implications

- 6.1 There are no equalities implications arising from the recommendations in this report.

7.0 Environmental implications

- 7.1 There are no environmental implications arising from the recommendations in this report.

8.0 Human resources implications

- 8.1 There are no human resources implications arising from the recommendations in this report.

9.0 Corporate landlord implications

- 9.1 There are no corporate landlord implications arising from the recommendations in this report.

10.0 Health and Wellbeing implications

- 10.1 There are no health and wellbeing implications arising from this report.

11.0 Schedule of background papers - None

Internal Audit Annual Report 2018-2019



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1. *Introduction*

Our internal audit work for the period from 1 April 2018 to 31 March 2019 was carried out in accordance with the approved 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 (Grant Thornton)
- 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 Council'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 Council's risks and its overall whole control environment but also all sources of assurance where appropriate, and where possible this is captured in the regular Strategic Assurance Map that is presented to the Audit and Risk Committee.

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. Also, consideration of the Council's ethics-related objectives programmes and activities, and the information technology governance is implicit in all internal audit activity.

The definition of internal audit, as described in the Public Sector Internal Audit Standards, is "Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

Internal audit activity is organisationally independent and further details behind the framework within which internal audit operates, can be found in the internal audit charter.

Executive Summary

As the providers of internal audit to the council, we are required to provide the Managing Director and Section 151 Officer 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 Managing Director and Section 151 Officer is reasonable assurance that there are no major weaknesses in the council's governance, risk management and control processes. We have taken into account:

- All audits undertaken for the year ended 31 March 2019.

- 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 Council's Strategic Risk Register and Assurance Map as presented to each meeting of the Audit and Risk Committee.

Internal Audit Opinion

We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out above, our opinion is as follows:

Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the council 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.

In reaching our opinion, the following factors were taken into particular consideration:

- We have had unfettered access to all records and employees during 2018-2019.
- The need for management to plan appropriate and timely action to implement our and other assurance providers' recommendations.
- Key areas of significance, identified as a result of our audit work performed in year are detailed later in this report.
- While stand-alone reviews of governance and risk management are not undertaken, consideration of both these issues are implicit in all internal audit work. Similarly, assurance is gained from the regular review of the Council's Strategic Risk Register as presented at each meeting of the Audit and Risk Committee, and through the 'calling-in' of certain risks by the committee for a more detailed review.

Throughout the year we did note a number of key control issues, either through our work or in the preparation of the Annual Governance Statement, and these are listed below.

While not fundamental to the overall opinion, we gave a '**limited assurance**' rating as a result of our internal audit work in the following areas:

• Tenant Management Organisations
• Recruitment and Retention of Social Workers
• Aldersley Leisure Village Events – Cash Handling
• Civil Parking Enforcement Contract Management
• SEND Data Integrity

Further details on each of these limited assurance reports was presented to the Audit and Risk Committee throughout the year, and this can be found on the Council's [website](#)

In addition to the limited assurance reviews above, we also undertook three detailed lessons learnt reviews at the request of the Managing Director and a number of issues were raised, in respect of the following projects/programmes:

- Civic Halls – Refurbishment
- Markets Relocation
- Interchange – Train Station

A special meeting of the Audit and Risk Committee was held on 25 July 2018 where these three reports were presented and the former Managing Director responded to questions arising from the reports by committee members. Full copies of these reports can be found on the Council's [website](#)

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 good practice is embedded:

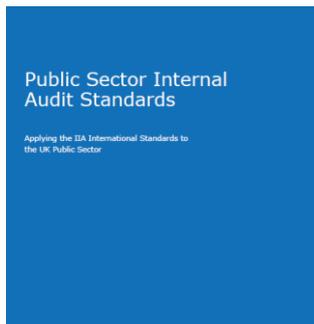
• Savings targets
• Procurement, Contract Management and Monitoring
• Corporate Landlord
• Civic Halls
• West Midlands Combined Authority
• General Data Protection Regulations
• Tenant Management Organisations
• Residential Site Management Arrangements

Further details on each of these can be found in the Annual Governance Statement.

Key risks the Council faces

The key risks the Council faces in delivering its outcomes are captured in a Strategic Risk Register which is updated as and when the risk profile of the Council changes, and is reported to the Audit and Risk Committee on a regular basis.

Compliance with the Public Sector Internal Audit Standards



The internal audit service follows the Public Sector Internal Audit Standards, and the Code of Ethics that form part of the standards, as laid out in the internal audit charter approved by the Audit and Risk Committee. The quality assurance and improvement programme and accompanying self-assessment identified no major non-conformances with these standards. This was confirmed through the results on an independent valuation of the self-assessment exercise commissioned by, and reported through the Audit and Risk Committee in 2018. Therefore, the internal audit activity is able to confirm conformance with the international standards for the professional practice of internal auditing.

Summary of work completed

A detailed written report and action plan is prepared and issued for every review where appropriate. 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.

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

Year on year comparison

56 pieces of audit work have been completed during the year, 47 of which have been given an audit opinion. A summary of the audit opinions given, with a comparison over previous years, is set out below:

Opinion	2018-2019	2017-2018	2016-2017
Substantial	18	17	19
Satisfactory	23	21	10
Limited	6	9	8

Direction of travel

As can be seen the number and type of each level of assurance has remained fairly constant between 2017-18 and 2018-2019.

2 Summary of audit reviews completed

The following audit reviews were completed during the 2018-2019 financial year.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Previously reported:							
Fixed Assets 2017 – 2018	High	-	-	2	2	2	Substantial
Main Accounting 2017-2018	High	-	-	5	5	5	Satisfactory
Compliance with GDPR Requirements	Medium	-	7	6	13	13	Satisfactory
Senior Officer Remuneration	N/A	-	-	-	-	-	N/A
Direct Payments	High	-	4	2	6	6	Satisfactory
Ashmore Park Nursery School	Medium	-	1	-	1	1	Substantial
Springdale Junior School	Medium	-	1	4	5	5	Substantial
St. Anthony's RC Primary School	Medium	-	1	4	5	5	Substantial
West Park Primary School	Medium	-	3	6	9	9	Substantial
Westacres Primary School	Medium	-	2	4	6	6	Substantial
Colton Hills Secondary School	Medium	-	7	5	12	12	Satisfactory
Dovecotes Primary School	Medium	-	2	3	5	5	Substantial
Windsor Nursery School	Medium	-	-	2	2	2	Substantial
Christ Church Infants School	Medium	-	5	3	8	8	Satisfactory
Oak Meadow Primary School	Medium	-	3	2	5	5	Substantial
Strategic Stakeholder Relationship Management	High	-	3	-	3	3	Satisfactory
City Development Project Pipeline	High	-	5	-	5	5	Satisfactory

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Deprivation of Liberties	Medium	-	2	2	4	4	Satisfactory
Foster Care – Framework Agreement	High	-	-	-	-	-	N/A
Carbon Reduction Credits Scheme	Medium	-	1	-	1	1	Satisfactory
Complaints and Compliments Procedure	Medium	-	6	3	9	9	Satisfactory
Transport Grant Certifications	Medium	-	-	-	-	-	N/A
Bilston Nursery School	Medium	-	3	4	7	7	Substantial
Eastfield Nursery School	Medium	-	2	3	5	5	Substantial
Wodensfield Primary School	Medium	-	2	2	4	4	Substantial
Vulnerable Youngs Persons	Medium	-	1	4	5	5	Satisfactory
Adult Education Policies and Procedures	Medium	-	-	-	-	-	N/A
Black Country ESF and Youth Employment Initiatives	Medium	-	6	1	7	7	Satisfactory
Tenant Management Organisations *see note below	Medium	4	55	52	111	111	Limited
Recruitment and Retention of Social Workers	High	-	5	-	5	5	Limited
Procurement of Mobile Phones	Medium	-	2	1	3	3	Satisfactory
WMPF Monthly Payroll Contribution Statements	High	-	-	1	1	1	Substantial
Local Taxes – E-Form Testing	Medium	-	-	1	1	1	N/A
Aldersley Leisure Village Events – Cash Handling	Medium	1	5	4	9	9	Limited
Civil Parking Enforcement Contract Management	Medium	1	6	-	7	7	Limited
City North Gateway	Medium	-	-	-	-	-	Grant Certification
Troubled Families Grant Certification – Q3	Medium	-	-	-	-	-	Grant Certification

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
i54 Western Extension Project Management	Medium	-	7	-	7	7	Satisfactory
Reported this quarter for the first time:							
Pennfields Special School	Medium	-	7	4	11	11	Satisfactory
GDPR – Operational Arrangements	Medium	-	1	6	7	7	Satisfactory
Three Conversations Policy – Care Pathway	Medium	Compliance review – not RAG rated			10	10	Satisfactory
Resilience Team	High	Compliance review – not RAG rated			7	7	Satisfactory
Impact Assessments – Smoking Cessation	Medium	-	-	-	-	-	N/A
SEND Data Integrity	Medium	4	5	-	9	9	Limited
Payment Card Industry Data Security Standards	Medium	-	1	3	4	4	Satisfactory
Waste Services and Future Contract Arrangements	High	-	-	3	3	3	Substantial
Transport Capital Programme Prioritisation	High	-	2	2	4	4	Satisfactory
Main Accounting (GL and Budgetary Control)	High	-	-	9	9	9	Satisfactory
Payroll Dashboard Checks	High	-	-	-	-	-	Substantial
Accounts Receivable	High	-	1	3	4	4	Satisfactory
Accounts Payable **see note below	High	-	2	-	2	2	Satisfactory
Treasury Management	High	-	-	-	-	-	Substantial
Housing Benefits	High	-	-	-	-	-	Substantial
Housing Rents	High	-	-	-	-	-	Substantial
Troubled Families Grant Certification	Medium	-	-	-	-	-	Grant Certification

- Key:**
- AAN Assessment of assurance need.
 - * The four organisations that formed part of the TMO review were Bushbury Hill Estate Management Board, Dovecote Tenant Management Organisation, New Park Tenant Management Co-operative and the Springfield Tenant Management Co-operative. Therefore, a significant number of the same, or similar recommendations were made for all four, hence the larger number of recommendations made.
 - ** Accounts Payable is made up of four separate reviews. These include: Accounts payable uploads, changes to supplier bank details, P-Card review, and P-Card VAT.
 - N/A Consultancy type assignments where an opinion on the control environment is not the main focus of a review.

3 *On-going assurance work where reports are not issued*

Project/Programme	In the original audit plan?	Audit Service's Role
Equal Pay	Yes	A member of the audit team is embedded in the project to provide advice on project governance and management of risks associated with the management of equal pay claims. Audit assurance is also provided around the calculation of settlement offers and the payment of claims.
Information Governance	Yes	A member of the team sits on the Council's Information Governance Board in the capacity of providing advice and support.
Commercial Business Improvement Programme (formerly Digital Transformation Programme)	Yes	Audit takes part in the programme in a project assurance capacity. During the lifecycle of the programme on-going advice is provided on the governance of the programme and the management of associated risks.
Pay Strategy	Yes	A member of the team sits on the Council's Pay Strategy Board. The purpose of the board is to ensure that all requests in respect pay and grading is approved in accordance with the Council's Collective Agreement for NJC employees.
Project Assurance Group	Yes	A member of the team is involved in this group. The purpose of the group is to ensure that all of the Council's projects and programmes, recorded through the Verto system, are reviewed and scrutinised.
WV Active Improvement Programme	Yes	We have representation on the Programme Board. During the lifecycle of the programme on-going advice is provided on the governance of the programme and the management of associated risks.
Delivering Independent Travel Programme	New	A member of the team sits on the Programme Board as Independent Programme Lead. During the lifecycle of the programme on-going advice is provided on the governance, risk management and, programme and project management arrangements.
Schools Fire Safety Working Group	New	A member of the team sits on the Board in the capacity of providing advice and support. The programme's main objective is to rectify the specification of fire doors in newly built PFI schools.

Project/Programme	In the original audit plan?	Audit Service's Role
Business Support Programme	New	A member of the team sits on the Board in the capacity of providing advice and support. The programme's main objective is the centralisation of administration within the Council.
City Learning Quarter Programme	New	Audit Services have been invited to provide an assurance role for the programme. This is a major capital investment project which has a reputational risk to the Council.
Our Assets Programme	New	A member of the team sits on the Programme Board as Independent Programme Lead. During the lifecycle of the programme on-going advice is provided on the governance, risk management and, programme and project management arrangements.
Children's Transformation Board	New	A member of the team attends the Board and provides support and assurance on project management arrangements and specific audit issues.
Agresso Board	New	A member of the team sits on this Board to oversee the on-going development of the Council's enterprise resource planning (ERP) solution.

Counter Fraud Activities

We continue to investigate all allegations of suspected fraudulent activity, during the year. Details of these are presented to the Audit and Risk Committee in separate reports, along with details of initiatives put in place, in order to both raise awareness of, and tackle fraud across the Council.

4 *Key issues arising from our work completed in the final quarter*

There was only one limited assurance report issued during the final quarter on the data integrity of the quality of the information available to support Special Educational Needs and Disabilities commissioning decisions.

The Council uses Capita One software to assist teams in carrying out statutory functions, completing relevant DfE returns and for service monitoring and planning. It is a universal system and holds core data for all pupils on roll in Wolverhampton schools, alongside details of their involvement with services provided by the Council. The data held in Capita One is sensitive as it contains details of children and adults (name, address, ethnicity etc.). The system used by the schools to collect data about pupils is principally SIMS but a range of management systems are used. Information from schools, academies and the DfE are sent to the Council and Capita One is updated. Our review noted that:

- Responsibility for the Capita One system was spread over a number of service areas and this had led to a lack of consistency in its use, regular updates and in the accuracy of the information available – leading to additional time being spent on manually correcting inaccuracies
- Orders not being raised for the provision of services from specialist providers resulting in a lack of budget commitment and non-compliance with the corporate process.
- Pupil data was not being sufficiently protectively marked in various correspondence between teams.
- There was no formal process in place to remove access to the system for leavers or employees who change role and no longer require access.
- Records being retained longer than the required time frame.

Further details of other limited assurance reports as presented to the Audit and Risk Committee earlier in the year, can be found on the Council's [website](#)

Follow up of previous recommendations

We continue to monitor the implementation of previous key recommendations, and any major issues of concern relating to their non-implementation, will be reported back to the Audit and Risk Committee. During this quarter we have followed up recommendations in respect of our previous review of the Rainbow Nursery and action was being taken in order to implement these.

5 Changes to the Audit Plan during the year

Audit Area (as was in place during 2018-2019)	Audit related pieces of work in the initial plan	Audit related pieces of work added or removed during the year	Revised number of audit related pieces of work
Corporate	8	(1)*	7
Key Financial Systems	12	2	14
People	15	(4)	11
Education	23	(1)	22
Place	13	(5)	8
Housing	5		5
Total	76	(9)	67

The additional support provided to the lessons learnt reports and projects and programmes, reported under section 3 of this report, resulted in the plan being revisited throughout the year and the plan is re-profiled throughout the year as and when the risk profile of the Council changes, and in order to react to emerging issues and specific management requests.

6 Audit and assurance effectiveness measures

Our performance against the following Audit and Assurance effectiveness measures, that were prepared around the successful delivery of the audit service, is as follows:

Audit Plan measures	
Audit reports identifying suggested areas for action, issued to auditees within two weeks of completion of fieldwork.	Approximately 65% of audit reports were issued within two weeks of the completion of audit fieldwork. A protocol has been agreed with senior managers in order to help continue to improve on this.
Number of audits where time taken to complete assignment is more than 10% longer than planned.	Approximately 70% of reviews took 10% longer than anticipated, with the others completed either on target or under. In the majority of instances, reasons for audit work exceeding budget is that unforeseen issues arise which take time to resolve. However, we will continue to seek to improve on the time taken in completing such reviews.

Delivery of at least 80% of the audit plan, and an opinion which provides suitable assurance on the overall governance, risk management and control environment.	The audit plan was subject to revision during the course of the year in order to take account of emerging issues and a changing risk profile. Based on the revised number of audits as at 31 March 2019, 90% of the plan had been delivered. The four audits not started as at 31 March 2019 have been incorporated in the 2019-2020 audit plan.
Risk Based Audit Plan produced and available to the Council in advance of the year.	The Audit Plan was approved by the Audit and Risk Committee prior to the commencement of the new plan year.
Recommendations measures	
90% of recommendations accepted by Council management.	All recommendations made in the year were accepted by Council management.
Number of key recommendations followed up, implemented by the council by the target date.	The majority of previous key recommendations followed up had been implemented within the agreed date. Where not, these have been reported back to the Audit and Risk Committee throughout the year.
Relationships measure	
Positive feedback from completed client satisfaction surveys.	The majority of feedback was of a positive nature.
External Audit measure	
External Audit use the work of internal audit to help inform their own work.	No issues have been raised by the External Auditors on the work of Internal Audit.

7 *Key Partnerships*

The City Council's Audit Service also provide the internal audit service for:

- West Midlands Pension Fund
- West Midlands Combined Authority
- Wolverhampton Homes
- WV Living