



# Audit and Risk Committee

## 14 March 2016

Report title	Internal Audit Update – Quarter Three		
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Report to be/has been considered by	Not applicable		

### Recommendations for noting:

The Committee is asked to note:

1. The contents of the latest internal audit update as at the end of quarter three.

## **1.0 Purpose**

- 1.1 The purpose of this report is to update the Committee on the progress made against the 2015/16 audit plan and to provide information on recent work that has been completed.

## **2.0 Background**

- 2.1 The internal audit update report as at 31 December 2015 (quarter three) contains details of the matters arising from audit work undertaken so far this year. The information included in the report will feed into, and inform the overall opinion in our annual internal audit report issued at the year end. It also updates the Committee on various other activities associated with the internal audit service.

## **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 recommendations in this report. [MK/01032016/T]

## **5.0 Legal implications**

- 5.1 There are no legal implications arising from the recommendations in this report. [TS/04032016/K]

## **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 Schedule of background papers - None**

# Internal Audit Update

Quarter 3

# 1 Introduction

The purpose of this report is to bring the Audit and Risk Committee up to date with the progress made against the delivery of the 2015/16 internal audit plan.

The Audit and Risk Committee has a responsibility to review the effectiveness of the system of internal controls and also to monitor arrangements in place relating to corporate governance and risk management arrangements. Internal audit is an assurance function which provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance. This work update provides the committee with information on recent audit work that has been carried out to assist them in discharging their responsibility by giving the necessary assurances on the system of internal control.

The information included in this progress report will feed into, and inform our overall opinion in our internal audit annual report issued at the year end. Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

<b>Substantial</b>	<ul style="list-style-type: none"><li>• a robust framework of controls which ensures that objectives are likely to be achieved and controls are applied continuously or with only minor lapses</li></ul>
<b>Satisfactory</b>	<ul style="list-style-type: none"><li>• a sufficient framework of key controls for objectives to be achieved but the control framework could be stronger or the application of controls could be more consistent</li></ul>
<b>Limited</b>	<ul style="list-style-type: none"><li>• a risk of objectives not being achieved due to the absence of key internal controls or a significant breakdown in the application of controls</li></ul>

## 2 Summary of audit reviews completed

The following audit reviews were completed by the end of the second quarter of the current year.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Previously reported:							
Hill Avenue Primary School	Medium	-	7	6	13	13	Limited
Low Hill Nursery School	Medium	-	-	5	5	5	Substantial
Whitgreave Junior School	Medium	-	-	-	0	0	Substantial
Long Knowle Primary School	Medium	1	12	5	18	18	Limited
Senior Officers Remuneration and Officers > £50K	N/A*	-	-	-	-	-	N/A*
Coppice Performing Arts School	N/A*	1	-	-	1	1	Limited
Use of P-cards: System controls	N/A*	-	4	2	6	5**	Limited
Grove Primary School	Medium	-	6	-	6	6	Satisfactory
Warstones Primary Schools	Medium	-	-	6	6	6	Satisfactory
Graiseley Primary School	Medium	-	-	4	4	4	Satisfactory
New Park Community Special School	Medium	-	2	2	4	4	Satisfactory
Rakegate Primary School	Medium	-	2	3	5	5	Satisfactory
Penn Hall Special School	Medium	-	-	-	-	-	Substantial
Migration of Services into the Customer Contact Centre	Medium	-	-	4	4	4	Substantial
Street Lighting – Capital Programme	Medium	-	3	-	3	3	Satisfactory
Fleet Management – Hire and Replacement of Vehicles	Medium	-	2	3	5	5	Satisfactory

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Budgetary Control Managed Audit	High	-	3	2	5	5	Satisfactory
General Ledger Managed Audit	High	-	2	4	6	6	Satisfactory
Housing Benefits Managed Audit	High	-	1	3	4	4	Satisfactory
Carbon Reduction Commitment Assurance Review / Data Verification	High	-	-	1	1	1	Substantial
Young Peoples Supported Living (YMCA) Contract Arrangements	High	1	3	-	4	4	Limited
<b>Reported this quarter for the first time:</b>							
Villiers Primary School	Medium	-	-	3	3	3	Substantial
Palmers Cross Primary School	Medium	1	7	1	8	8	Limited
Claregate Primary School	Medium	-	2	1	3	3	Satisfactory
Accounts Receivable Managed Audit	High	-	5	7	12	11**	Satisfactory
Business Continuity / Resilience Management	High	-	3	6	9	9	Satisfactory
Transport Related Grant Certification	Medium	-	-	-	-	-	Satisfactory
Decent Homes Backlog Grant Certification	N/A*	-	-	-	-	-	Satisfactory
Corporate Landlord Charging and Income Collection (Project Costing and Billing System)	Medium	-	3	-	3	3	Satisfactory
Administration of Section 106 monies	N/A*	-	-	-	3	3	Substantial
Accounts Payable Full Systems Audit	High	-	10	5	15	15	Limited
Stowlawn Primary School	Medium	-	1	5	6	6	Satisfactory
Independent Reviewing Officer Service	Medium	-	3	3	6	6	Satisfactory

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Pre-Paid Cards Implementation	High	-	2	-	2	2	Satisfactory
St Alban's CE Primary School	Medium	-	1	-	1	1	Substantial
Salary Sacrifice Schemes	Medium	-	5	1	6	6	Satisfactory
Agresso Implementation Update	N/A*	-	2	1	3	3	Satisfactory
Income Manager	Medium	1	3	2	6	6	Limited
Governance's P-Card Usage	Medium	-	3	-	3	3	Satisfactory
Mayoral Office	Medium	-	-	4	4	4	Substantial

**Key:**

AAN Assessment of assurance need.

\* One-off piece of work undertaken by request or certification/non-risk based reviews etc. – therefore an audit opinion may not always be provided.

\*\* Recommendations were superseded.

### 3 Audit reviews underway

There were a number of other reviews underway as at 31 December 2015, and these will be reported upon in later update reports.

## Year on year comparison

39 pieces of audit work have been completed so far in the current year, where an audit opinion has been provided. A summary of the audit opinions given, with a comparison over previous years, is set out below:

Opinion	2015/16 (@ Q3)	2014/15	2013/14
Substantial	9	7	18
Satisfactory	22	29	51
Limited	8	12	9

## 4 Key issues arising from our work completed in Q3

### Managed Audits

We have now met with Grant Thornton, our new external auditors a number of times, and will work with them in developing our approach to the audit of the Council's financial systems. This will be based on risk, and where possible mirror their requirements, enabling them to, where appropriate, use our reviews to help inform their own work.

### Accounts Payable Full Systems Audit

Following the introduction of Agresso we are continuing to undertake full end to end reviews of all key the financial systems in addition to the general controls work we carry out annually.

Our full systems audit of the Accounts Payable process covered a period of time when the new Agresso processes were being introduced, and was a significant period of change across the Council in how the placing of requisitions, orders and the subsequent authorisation of payments were processed. At the time of our review, there were a number of control issues that were still being developed, and the general use of Agresso across the Council had yet to be fully embedded, hence why at that point in time we were only able to give a limited level of assurance. Some of the issues identified at the time included the control over duplicate payments, the raising of orders before requesting goods and services, general compliance with the contract procedure rules, clearing the invoice backlog and access controls.

All of the recommendations arising from our review (and accompanying supporting work) were agreed by Council management. Since that time, we have been working closely with the relevant service areas, and we are already aware that a number of issues raised in our report have been, or are being addressed. However, obviously there is also more to do.

An exhaustive Agresso Challenge is also underway and the results from this will help inform and drive the cross-Council effectiveness of the new processes.

We will continue to monitor the situation, and should any further key issues arise, we will report them back to the Audit and Risk Committee.

### Palmers Cross Primary School

The school was placed into special measures at the start of the Autumn Term 2014 and has been supported by an Interim Executive Board (IEB) since November 2014. In addition, the school is receiving support from staff from Elston Hall Primary School. Some of the main issues identified during the course of our audit were as follows:



- A number of copies of the Governing Body and committee minutes for meetings held up to the formation of the IEB were not available for inspection at the school. Also the minutes of the subsequent IEB meetings could not always be located.
- In the majority of cases orders were being placed verbally with suppliers, rather than following the proper ordering processes (as orders were being raised after the receipt of invoices). This is a breach of the financial regulations.
- No requisitions/orders were raised to confirm the authorisation of purchase card transactions. Also, bank account statements were not evidenced as being checked and certified by the cardholder or the Acting Headteacher. We believe that this was down to non-compliance with procedures, rather than any fraudulent activity.
- The Executive/Acting Headteacher's delegated expenditure and virement limits had not been formally approved by the IEB.

All of our recommendations were agreed for implementation with immediate effect by the Executive Headteacher.

### **Income Manager**

This was an additional review to the audit plan, as identified during the year. The purpose of the Income Manager system is to enable all income to be allocated to a customer account or service area promptly and accurately with a visible trail. The Income Manager system includes the receipt, allocation, reallocation, reporting and reversal (if required) of transactions received. It is acknowledged that the majority of financial transactions 96% are automatically posted and the Banking team manage the unallocated transactions.

At the time of our review (during the transition period between the changes in the Council's new systems) a number of transactions had been received but had yet to be posted to the respective supporting system. A significant number of these transactions related to local taxes (Council Tax and Non-Domestic Rates). Following the findings of our review an audit resource was provided to work with the Banking Services Team in order to significantly reduce the number of these unallocated transactions.

### **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.

One of our main follow up reviews in the last quarter was on the Schools' Disclosure and Barring Service, from our earlier report 'Personnel, Administration and Contracts Team (PACT) Disclosure and Barring Service (DBS) Checks', which was issued on 30 March 2015. It was our opinion at the time of the initial review that the controls within the system provided only limited assurance that risks material to the achievement of the objectives for the system were adequately managed and controlled. Our follow up found that members of PACT have now familiarised themselves with the operational procedures for undertaking DBS checks and all staff now follow these procedures. Further, PACT has cleared the backlog of outstanding checks previously identified. However, updated guidance had yet to be issued to schools as was previously recommended. Further, the recovery of the DBS costs recharged to schools for the current financial year had not been undertaken on a timely basis. Therefore, we will revisit and update the committee, on this area in 2016/17.

### **Counter Fraud Activities**

We continue to investigate all allegations of suspected fraudulent activity, during the year. Details of these have will be presented to the Audit and Risk Committee in a separate report,

along with details of initiatives put in place in order to both raise awareness of, and tackle fraud across the Council.