

CITY OF
WOLVERHAMPTON
COUNCIL

Audit and Risk Committee

12 March 2018

Report title	Internal Audit Update – Quarter Three	
Accountable director	Claire Nye, Director of Finance	
Accountable employee(s)	Peter Farrow	Head of Audit
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Report to be/has been considered by	Not applicable	

Recommendation 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 2017-2018 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 2017 (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.
(GE/27022018/I)

5.0 Legal implications

- 5.1 There are no legal implications arising from the recommendations in this report.
(TS/23022018/W)

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.

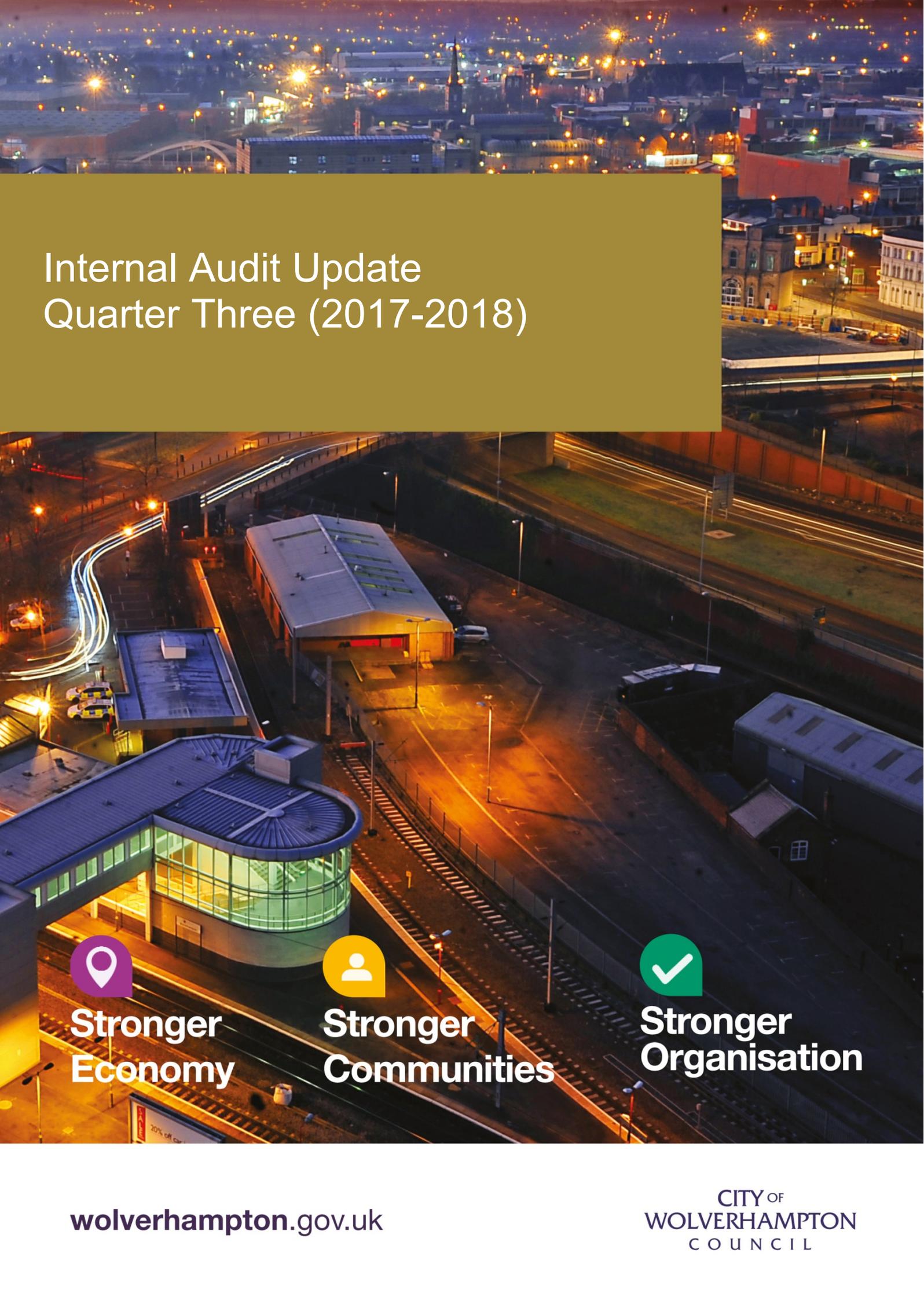
8.0 Human resources implications

- 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 Three (2017-2018)



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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 2017-2018 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:

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

27 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	2017-2018 (@ Q3)	2016-2017	2015-2016
Substantial	9	19	13
Satisfactory	11	10	35
Limited	7	8	14

2 Summary of audit reviews completed

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

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Previously reported:							
Senior Officers Remuneration	High	-	-	-	-	-	N/A
WV Active Income Banking & E-turns	Medium	2	3	2	7	7	Limited
Management IR35 & Interims	Medium	-	4	4	8	8	Satisfactory
Use of Pharmaoutcomes	Medium	-	2	2	4	4	Limited
Bushbury Nursery	Medium	-	1	4	5	5	Substantial
Uplands Junior School	Medium	-	2	8	10	10	Satisfactory
Spring Vale Primary School	Medium	-	1	10	11	11	Substantial
Bushbury Hill Primary School	Medium	-	2	7	9	9	Satisfactory
Stow Heath Primary School (enhanced Service)	Medium	-	8	4	12	12	Satisfactory
Goldthorne Primary School	Medium	-	2	-	2	2	Satisfactory
St Patricks Primary School	Medium	7	24	2	33	33	Limited
Whitgreave Infants School	Medium	-	2	-	2	2	Substantial
Contract Management Arrangements - Transport Capital Programme	Medium	1	2	-	3	3	Limited
Human Resources – Policy Management	Medium	-	5	1	6	6	Satisfactory
Looked After Children	Medium	1	3	1	5	5	Limited
Payroll Overpayments	Medium	-	2	2	4	4	Satisfactory
Financial Decision Making Processes	High	-	-	-	-	-	N/A

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Eastfield Primary School	Medium	-	1	3	4	4	Substantial
Fallings Park Primary School	Medium	-	2	6	8	8	Substantial
St. Luke's CE Primary School	Medium	-	5	6	11	11	Satisfactory
Lanesfield Primary School	Medium	-	8	11	19	19	Satisfactory
Off-Site School Visits	Medium	-	4	-	4	4	Satisfactory
Carbon Reduction Credits Scheme	High	-	-	-	-	-	N/A
Reported this quarter for the first time:							
Merridale Primary School	Medium	-	1	4	5	5	Substantial
Lanesfield Primary School	Medium	-	8	11	19	19	Satisfactory
Wood End Primary School	Medium	-	1	4	5	5	Substantial
Woodthorne Primary School	Medium	6	17	1	24	24	Limited
Additional salary payments for schools	Medium	-	-	-	-	-	N/A
Outdoor Public Events	Medium	4	7	2	13	13	Limited
Civic Centre Payment Kiosks	High	-	-	2	2	2	Substantial
Treasury Management	High	-	-	-	-	-	Substantial
IT&SM Transport Grant 2016	High	-	-	-	-	-	N/A
Troubled Families: Payment by Results – July 2017 Claim	High	-	-	-	-	-	N/A
Troubled Families: Payment by Results - December 2017 Claim	High	-	-	-	-	-	N/A

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

We provide on-going assurance throughout the year in the following areas:

Equal Pay

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

We have a member of the team who sits on the Council's Information Governance Board.

Digital Transformation Programme (DTP)

We also have a member of the team involved in this programme which covers the Customer Engagement Platform, Master Data Management, and Business Intelligence projects. During the lifecycle of the programme we provide on-going advice on the governance of the programme and management of associated risks. We have also provided on-going support in respect of user acceptance testing in respect of each of the programme's projects.

Pay Strategy

We have representation 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.

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.

4 *Audit reviews underway*

There were a number of other reviews underway as at 31 December 2017 and these will be reported upon in later update reports.

5 *Key issues arising from our work completed in Quarter Three*

There were two limited assurance reports issued during quarter three details of which are provided below:

Outdoor Public Events

We reviewed the processes and procedures the Council had in place to maximise the number of outdoor events in the city (to support economic growth) but minimise risk to the Council (in terms of finance, legal, health and safety etc). We found that a number of service areas and third parties have been and are becoming involved in organising and running Council events. While many of these events have been a success and helped raise the profile of the City, the audit highlighted that there was no overall co-ordinated strategy and approach. This had led to a fragmented and informal approach being taken which had ultimately led to a number of significant control issues. Some of these could have serious repercussions, in particular around health and safety, for the Council when set against the backdrop of the increasing need to consider safety measures for large scale public events. Our concerns included:

- There was no criterion which detailed exactly what events needed to be referred to the Safety Advisory Group (SAG) and within what timescales. As a result, a number of events had bypassed the Safety Advisory Group. This group plays a key role in considering and assessing risk assessments and health and safety requirements.
- Inadequate public liability insurance arrangements held by a third-party organiser.
- Officers operating outside of the Council's Financial Procedure Rules, in particular with regards to inconsistencies in the levels of fees and charges being applied and in introducing their own unofficial invoicing processes.
- Similarly, over time some officers had built up a close working relationship with certain suppliers, and had shown a tendency to use them on a regular basis, to the detriment of having a reasonable level of regular competition.
- Overall, there was very much the impression of certain officers working to their own processes without due consideration of corporate requirements.
- The lack of a corporate Event Management Plan for service areas to use in ensuring a consistent approach to event planning. However, we do appreciate that due to the variety and nature of the events the Council is involved in, a one size fits all approach may not always be practical.
- An inconsistent approach to promoting events through the various websites available to the Council.
- Scope for improving the Council's website so as to enable organisers of thirds party events to have ready access to all of the necessary guidance, information and application forms.
- Events organised by third parties were not always subject to regular inspections by Council officers on the day of the events.

Woodthorne Primary School

An audit of Woodthorne Primary School was undertaken which identified a number of red and amber issues where improvements could be made. To put the review into context the former Headteacher had left the school at the end of the Spring term 2017 and the school were unable to appoint to the position due to a lack of suitable candidates. We were advised that ConnectED arranged for the school to be supported by Perry Hall Multi Academy Trust (MAT). An interim Headteacher, who was a headteacher at another school, was appointed initially to the end of the Autumn term 2017. This was subsequently extended by the governing body and they agreed that the support from the MAT with the interim Headteacher should remain in place for the next academic year 2017-2018. The recruitment of a new headteacher has been deferred until Spring 2018.

In September 2017 the governing body agreed to make an application to join the MAT and has an Academisation Order. When the conversion takes place the financial procedures and processes will come under the remit of the MAT's Strategic Finance and Business Manager. The previous Chair of Governors also resigned at the end of the Spring Term 2017. The current Chair of Governors was approved as a co-opted governor at the governing Body meeting in March 2017. The Council's School Improvement Team have been working with the school and have advised that since the support package has been introduced there has been an improvement in teaching and learning for pupils. Our observations were that

- There was a lack of clarity over the governance arrangements in the school regarding the responsibility for monitoring of the school budget and financial decision making. This was partly due to the support package that was being provided to the school. Employees of the MAT were recorded in the minutes as having responsibility for financial decision making but this is not permissible in practice as they are not school employees. In addition, the interim Headteacher was authorising invoices for payments to the school that employs them. The scheme of delegation requires revision to ensure that the school is compliant with financial rules and that conflicts of interest are avoided.
- The Chair of Governors was a Director of the the MAT and an employee of S4S. The governing body minutes did not indicate that the Chair left the meeting and did not take part in discussions/decisions relating to the purchase of support services from the MAT or S4S.
- At the time of the audit we asked for, but were not provided with, details of the support package that had been brokered by ConnectEd with the MAT. A letter of agreement confirming the support arrangements was subsequently provided at a meeting with the Executive Headteacher of the MAT in February 2018. We noted that the cost of this support exceeded the headteacher's delegated limit and had not been approved by governors and recorded in the governing body minutes.
- The Single Central Record was not up-to-date.
- The school did not have an up-to-date inventory of its assets.
- The reconciliation process for agreeing that the school's financial management records match those of the Local Authority was not being undertaken.
- Payroll reports were not being reviewed by the Headteacher.
- Additional payments were being made to employees at a different rate to their contract of employment without any explanation.
- Quotes were not being obtained for expenditure that exceeded £5,001 (in accordance with School Financial Rules) and details were not being presented to Governors for approval.

- The systems in place for the collection and accounting of income were inadequate and did not provide sufficient audit trails to verify that all income received had been duly accounted for.

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 the following reports:

- Agresso Access Controls
- Section 17 Payments
- ConnectED (see below)

ConnectED

We followed up the recommendations made in our June 2017 report on ConnectED. The review at that time was focussed on how well the Council was fulfilling its role as supervising officer for the ConnectED school company, and testing was limited to a review of the information provided by ConnectED to the Council in its capacity as Supervisory Authority, much of which was not held by the Council at the time.

The original report made a number of recommendations, the most significant issues have now been revisited and we noted that the ConnectED board had agreed to provide information where available, including any amendments to its constitution within 28 days of the change taking place and annual company accounts within 28 days of the financial statements being provided by its auditors. However, a number of the issues had yet to be fully resolved and therefore remained outstanding. Our follow up report identified what actions needed to be taken in order to resolve these and it is understood that the introduction of the supervisory meetings between the Council and ConnectED will be key to this process.