

Audit and Risk Committee

11 June 2018

Report title	Annual Internal Audit Report 2017-2018	
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 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 2018.

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/30052018/F)

5.0 Legal implications

- 5.1 There are no legal implications arising from the recommendations in this report.
(TS/29052018/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.

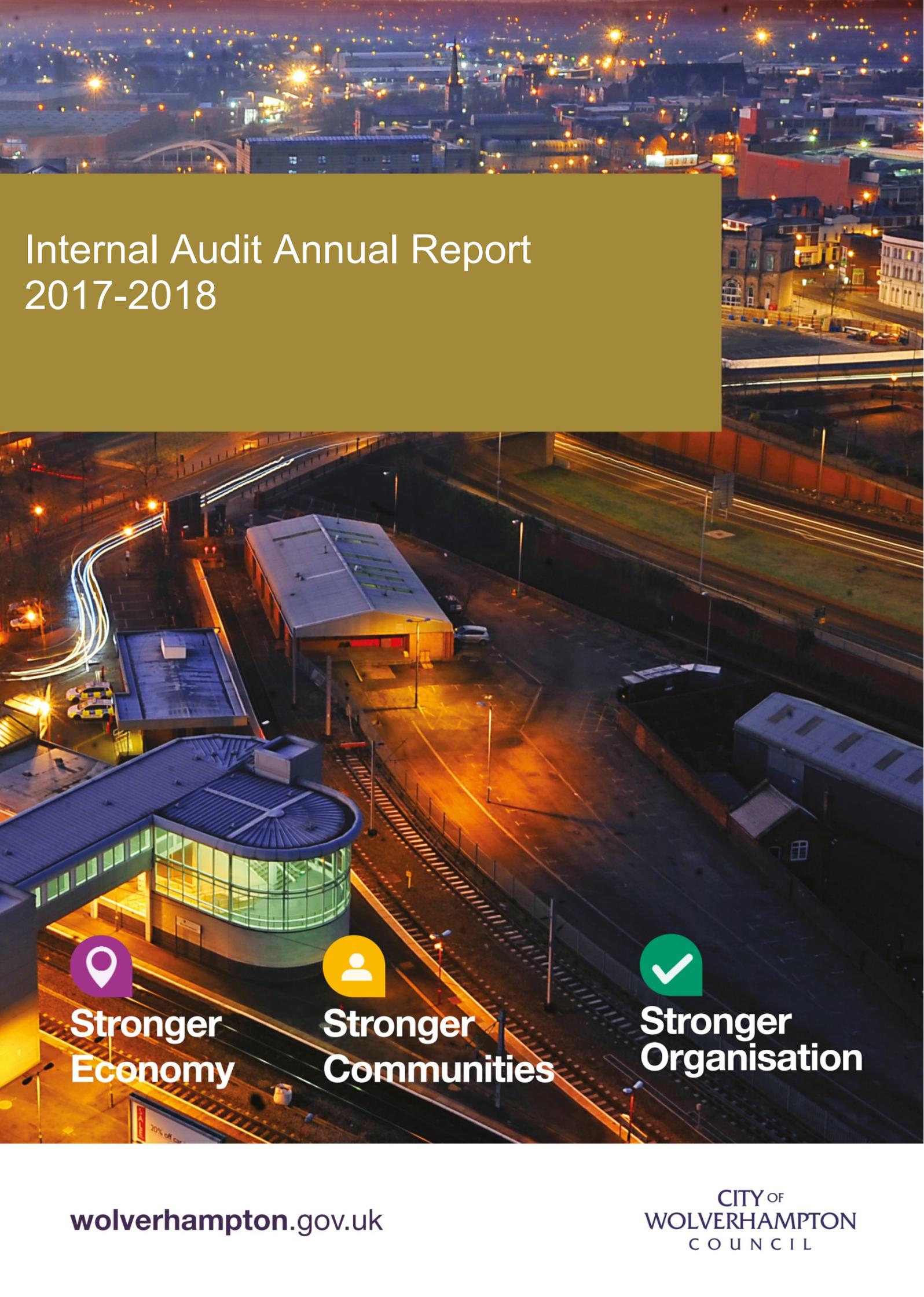
8.0 Human resources implications

- 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

A nighttime aerial photograph of Wolverhampton, showing illuminated buildings, streets, and a railway line. A semi-transparent olive-green box is overlaid on the top left, containing the report title.

Internal Audit Annual Report 2017-2018



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1. *Introduction*

Our internal audit work for the period from 1 April 2017 to 31 March 2018 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. 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.

Overall Assurance

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 2018.
- 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.

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.

However, 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' rating as a result of our internal audit work in the following areas:

WV Active Income Banking & E>Returns
Use of Pharmaoutcomes
Contract Management Arrangements - Transport Capital Programme
Looked After Children – fees and allowances
Outdoor Public Events
Vetting of Foster Carers
Stowheath Rainbow Day Nursery
2 x School Audits

At the request of the Managing Director we also undertook three lessons learnt reviews, whereby a number of issues were raised, in respect of the following projects/programmes:

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

As appropriate, these reviews will be presented in full at the Audit and Risk Committee, and it is important that the recommendations made are similarly implemented in a full and timely manner.

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
Combined Authority

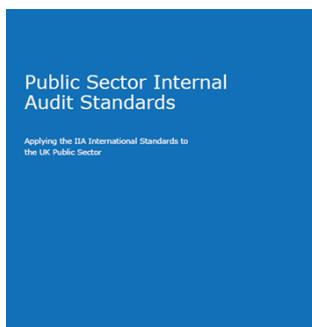
Corporate Landlord
Procurement, Contract Management and Monitoring
Cyber Security
Project Governance including the Civic Halls
General Data Protection Regulations
Arm's Length Management Organisation Partnership
Tenant Management Organisations
Residential Site Management
Housing Policies

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

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

- 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.

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 identified no major non-conformances with these standards and therefore the internal audit activity has conformed with the international standards for the professional practice of internal auditing. At its meeting in December 2017 the Audit and Risk Committee approved an option for the independent validation of the Council's internal audit team self-assessment. This exercise is planned for early in 2018-2019 and the results will be reported back to the Committee.

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

47 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	2016-2017	2015-2016
Substantial	17	19	13
Satisfactory	21	10	35
Limited	9	8	14

2 Summary of audit reviews completed

The following audit reviews were completed during the 2017-2018 financial 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>Returns	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 – fees and allowances	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	-	3	-	3	3	Satisfactory
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
Integrated Transport and Structural Maintenance 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
New for this quarter:							
St. Albans Primary School	Medium	-	-	4	4	4	Substantial

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Bereavement Services Income Management Arrangements	Medium	-	1	2	3	3	Satisfactory
Parking Services Income Management Arrangements	Medium	-	2	2	4	4	Satisfactory
Street Cleansing	Medium	-	2	1	3	3	Satisfactory
Additional Salary Payments for Schools	Medium	-	-	-	-	-	N/A – Briefing Note
European Regional Development Fund Projects	Medium	-	3	1	4	4	Satisfactory
Benefits - Universal Credits Referrals	High	-	-	-	-	-	Substantial
Housing Benefits	High	-	-	2	2	2	Substantial
Business Rates - Liability Changes	High	-	-	1	1	1	Substantial
Account Payable – Duplicate Payments	High	-	-	-	-	-	Substantial
Payroll – Occupational Schemes	High	-	2	2	4	4	Satisfactory
Accounts Receivable	High	-	-	-	-	-	Substantial
Housing Rents	High	-	1	-	1	1	Satisfactory
Local Taxes (Council Tax & NNDR)	High	-	-	1	1	-	Substantial
Payroll	High	-	1	1	2	2	Substantial
Troubled Families PBR Claim - January 2018	High	-	-	-	-	-	N/A
Troubled Families PBR Claim – March 2018 & Year End	High	-	-	-	-	-	N/A
Stowheath Rainbow Day Nursery	Medium	4	12	-	16	16	Limited
Vetting of Foster Carers	Medium	1	2	2	5	5	Limited
External Funding Framework	Medium	-	2	-	2	2	Satisfactory

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Enterprise - Strategic Stakeholder Relationship Management	High	-	1	3	4	4	Satisfactory
Accounts Payable	High	-	2	-	2	2	Satisfactory

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

There were only two limited assurance reports issued during the final quarter of the year. The details of which are provided below:

Vetting of Foster Carers

This audit was completed at the request of the Director for Children's Services following the recent legal case of *Armes -v- Nottinghamshire County Council* where the Supreme Court judged that Nottinghamshire County Council were legally liable for harm/injury to a looked after child, caused by a foster carer during their placement. The purpose of our review was to assess whether adequate checks, in accordance with The Fostering Services (England) Regulations 2011 were undertaken in respect of both internal and external foster carers.

The recruitment of internal foster carers (mainstream and connected) is the responsibility of the Council's Looked After Children's Service. In accordance with regulations, mandatory Form F's are used for the assessment of mainstream carers and Form C's for the assessment of Connected Persons carers. The full completion and retention of these forms provides the Council and the Fostering Panel with evidence that all the necessary checks have been completed.

For the recruitment of external foster carers, the Council uses the West Midlands Regional Foster Care Framework. The framework is administered by Birmingham City Council. The contract commenced in April 2016 and it has recently been extended for two years, until 4 April 2020. Use of the framework was approved by Cabinet, Resources Panel in March 2016. It allows the Council to access a range of carers at competitive prices. The Council also 'spot-purchase' non-framework foster carers when suitable providers are not available through the framework. Responsibility for vetting external foster carers lies with individual foster care agencies. However, in accordance with procedure and good practice, the Council should still obtain and retain an up to date copy of each carers Form F assessment to provide assurance that all necessary checks have been completed.

At the time of our review (January 2018), the Council had 187 looked after children placed with internal foster carers and 230 looked after children placed with external foster carers.

There were no issues with regards to the processes for internal carers. However, for externally provided placements sourced through the framework with Birmingham City Council, we found that copies of the Form F assessment confirming that all necessary checks had been completed, while not mandatory but rather good practice, were not always available. Also, that policies and procedures relating to the assessment and vetting of foster carers required review and that, while not a contractual requirement, there was no mechanism in place to ensure that the Council were promptly informed of issues or changes in the circumstances of external foster carers.

All of our recommendations were accepted and we have been working with the service area who have been able to demonstrate that these issues are being addressed.

Stow Heath Rainbow Nursery

An audit of the key financial controls at Rainbow Nursery, Stow Heath Primary School was undertaken at the request of the Headteacher. The nursery generates a significant amount of income and all records currently maintained to support this income were manual paper records. It is understood that the payment of Nursery fees will be integrated into a cashless payments system that is being introduced throughout the school in September 2018.

The Rainbow Children's Centre Nursery first registered in 2006. It operates from a purpose-built unit within the grounds of Stow Heath Primary School. The nursery is open each weekday from 8am until 6pm all year round, excluding public holidays. The last Ofsted inspection was undertaken 6 January 2016 and was rated as 'Good'.

The nursery offers full day care from 8.00am - 6.00pm catering for children of four months to five years of age. The nursery also runs an afterschool club for the Stow Heath Primary School and a holiday play scheme during each half term for anyone aged between four and ten years old.

Our review highlighted a number of issues including:

- We were unable to verify that there was a contract or agreement in place between the nursery and parents/carers for each child attending the nursery, after school club and the play schemes. Where contracts were in place it was found that they did not agree to the sessions attended by the children.
- Although some invoices were being raised and issued a consistent process was not being followed and it was not possible to gain assurance that all parents/carers had been issued with an invoice. In addition, invoices were not being issued on a regular basis or at the same time each month and there were variations regarding the information recorded on invoices.
- The process followed to identify arrears was time consuming as all the income records were held manually. A review of documentation in school found that it was not possible

to easily identify what parents / carers owed or what attempts had been made to recover arrears.

- Arrears were not being pursued in accordance with the Non-Payment of Fees Policy which sets out the recovery process that should be followed if payments are not received.

Details on other limited assurance reports and key issues raised during the year have already been brought to the attention of the Audit and Risk Committee through the regular Internal Audit Progress Reports.

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:

- Transport Capital Programme – Procurement and Contract Management Arrangements (Midland Highways Alliance Framework)

The original report made four recommendations (one red and three amber) to improve the overall controls and effectiveness of contracts procured under the Framework. Whilst we understand that no new procurement exercises had been undertaken after the issue of the original report nor were likely to be commenced before the end of the current Framework, a further instance of potential non-compliance was reported to Internal Audit. However, this was rectified by Corporate Procurement and appropriate certification obtained prior to issuing the contract. Consequently, the red recommendation regarding contract signing in accordance with the Council's Contract Procedure Rules was reiterated. As no opportunity may have arisen to implement the amber recommendations since issue, we acknowledge that full implementation is understandably yet to be achieved and ongoing.

The Service Director, Head of City Transport and Corporate Procurement have provided assurance that full implementation will be achieved as part of the establishment of the new Framework arrangement, as well as ensuring compliance within any alternative procurement arrangements utilised in the future.

5 Changes to the Audit Plan during the year

The audit 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.

Audit Area	Audits on the original plan	Audit changes during the year	Revised number of audits as at end of year
Corporate	14	-3	11
Key Financial Systems / Grants	12	8*	20
People	9	-	9
Education	18	5	23
Place	9	1	10
Housing	2	-2	0
Total	64	9	73

* the increase in key financial system reviews was due to focussed reviews being carried out in addition to the annual core control reviews.

The following audits were underway at the end of 2017-2018 and were in the process of being completed during the production of this report:

- City Development Strategic Stakeholder Relationship Management
- Main Accounting (General Ledger and Budgetary Control)
- Fixed Assets

From the work undertaken to date in these areas, there was nothing of significance that would impact upon our ability to provide an overall level of opinion. There were also a limited number of other reviews that have been rolled over into 2018-2019 and these will be reported back to the Audit and Risk Committee as appropriate.

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 70% 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 improve on this.
Number of audits where time taken to complete assignment is more than 10% longer than planned.	Approximately 60% 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 2018, 90% of the plan had been delivered.
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 but one of the total 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.	The External Auditors continue to comment favourably on work completed by Internal Audit.