



Audit Committee

9 March 2015

Report title	Internal Audit Update – Quarter Three	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Accountable director	Mark Taylor, Finance	
Originating service	Audit	
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	

Recommendations for noting:

The Committee is asked to note:

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 2014/15 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 2014 (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. (CN/20022015/R)

5.0 Legal implications

5.1 There are no legal implications arising from the recommendations in this report. (TS/16022015/R)

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

Wolverhampton

City Council



Internal Audit Progress Report: Q3 Audit Committee: 9 March 2015

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1 Introduction

The purpose of this report is to bring the Audit Committee up to date with the progress made against the delivery of the 2014/15 internal audit plan.

The Audit 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 Councillors 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:

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

2 Summary of work completed

The following audit reviews were completed within the first two quarters of the current year.

Key: AAN = Assessment of Assurance Need

Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
Reported previously							
Bert Williams Leisure Centre – Income	Medium	-	5	2	7	7	Satisfactory
Coppice Performing Arts School – Initial Review	NA*	-	-	-	-	-	NA *
Legal Services Recharges	NA*	-	4	-	4	4	NA *
Adoption Reform Grant Certification	NA*	-	-	-	-	-	NA *
Parkfield Primary School	Medium	-	1	7	8	8	Satisfactory
Oxley Primary School	Medium	-	1	1	2	2	Substantial
St Luke’s CE Primary School	Medium	-	1	3	4	4	Satisfactory
St Andrew’s CE Primary School	Medium	-	4	4	8	8	Satisfactory
Grove Primary School – Mini Review	NA *	-	-	-	6	6	NA *
New Park Special School – Healthcheck	NA *	-	-	-	19	-	NA *
Woodthorne Primary School	Medium	-	4	7	11	11	Satisfactory
Stow Heath Primary School	Medium	-	2	16	18	18	Satisfactory
Automated Biometric Systems	Medium	-	1	2	3	3	Satisfactory
Adults and Community – Complaints Procedures	Medium	-	-	2	2	2	Substantial
Pensions Gratuities	Medium	-	4	1	5	5	Satisfactory
Equal Pay Claims	High	-	2	-	2	2	Substantial
Information Governance Protective Marking	High	2	2	-	4	4	Limited

Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
Single Status - Collective Agreement Compliance	High	-	-	1	1	1	Substantial
Budgetary Control Managed Audit	High	-	-	4	4	4	Substantial
General Ledger Managed Audit	High	-	-	2	2	2	Substantial
Senior Officers Emoluments	NA*	-	-	-	-	-	NA **
Senior Officers Salaries > £50K Check	NA*	-	-	-	-	-	NA **
CRC – Annual Assurance Review	High	-	2	-	2	2	Satisfactory
CRC – Assurance Statement	High	-	-	-	-	-	NA **
Adult Education Service – HR Issues	NA *	-	-	-	4	-	NA **
Project Costing and Billing System	NA *	-	-	-	5	-	NA **
Rakegate Primary School – After School Club	NA *	-	-	5	5	5	Satisfactory
Petty Cash Procedures – Locality Teams	NA *	-	7	-	7	7	Limited
Very Sheltered Housing Contract Arrangements	Medium	1	5	3	9	9	Limited
Treatment of VAT on Certificate Payments	NA *	-	3	-	3	3	Limited
Performance Appraisal Scheme	High	1	4	2	7	7	Limited
Reported for the first time							
Bantock Primary School	Medium	-	1	2	3	3	Substantial
Oak Meadow Primary School	Medium	-	3	7	10	10	Satisfactory
Kingston Centre Pupil Referral Unit	Medium	-	8	3	11	11	Satisfactory
Dovecotes Primary School	Medium	-	-	8	8	8	Satisfactory
Wood End Primary School	Medium	-	-	8	8	8	Satisfactory

Auditable Area	AAN Rating	Recommendations				Total	Number accepted	Level of Assurance
		Red	Amber	Green				
Contract Management Arrangements (Community)	High	2	6	-	8	8	Limited	
Compliance with Learners with Learning Difficulties and/or Disabilities Post 16 SLA	Medium	2	3	1	6	6	Limited	

Notes

* One-off pieces of work undertaken by request (outside of the Audit Plan).

** Certification/non-risk based reviews etc. – therefore no audit opinion provided.

There were a number of other reviews underway as at 31 December 2014, and these will be reported back in later update reports.

Year on year comparison

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

Opinion	2014/15 (Quarter 2)	2013/14	2012/13
Substantial	7	18	22
Satisfactory	14	51	44
Limited	7	9	6

3 Key issues arising from our work completed in quarter 3

Contract Management Arrangements

We undertook an high level review of the care contract management arrangements in place in what was at the time, the Community Directorate. The contract register maintained within Procurement indicates that the annual current estimated contract value is around £22 million. Our review identified a number of areas for improvement, including:

- Contract ownership and associated roles and responsibilities for contract management were not always clearly defined and assigned for each contract. In addition, suitable governance arrangements and lines of reporting were not explicitly established.
- Key stakeholders (including operational officers) were not always clearly identified and actively engaged at the procurement stage and / or subsequently during the life of the contract.
- Operational officers in contract and performance management were not always being involved in order to make effective use of their operational knowledge regarding contract delivery.
- Robust risk management was not being undertaken for contracts in order to identify, assess and suitably control service / contract / provider risks.
- Effective planning of contract management activities was not always undertaken at the procurement stage.
- An assessment was not undertaken of the level of contract management activities required for each contract, taking into account proportionality and justification regarding cost and benefits that could be delivered through effective contract management.
- Contract monitoring and reporting arrangements (financial and non-financial) were not explicitly established for each contract, or being undertaken (with the availability of timely and appropriately detailed financial and non-financial information being a particular issue).
- Management of timetables for making key decisions and taking appropriate action for key trigger points in the contract life was not always being effectively undertaken.
- Contract documentation was not always made available to relevant key stakeholders including operational service areas at the outset of the contract.

Compliance with Learners with Learning Difficulties and / or Disabilities Post 16 SLA

In accordance with the Service Level Agreement between the Council and the City of Wolverhampton College, a sample of approximately 10% of students with learning difficulties and/or disabilities Post 16/High Needs Specialist Provision receiving top up funding provided by the Council and undertaking their education and learning at the College during 2013/14, was checked for compliance with the SLA requirements. This identified a number of individual anomalies and errors, including:

- Two students receiving funding from the Council were not resident within the City, and therefore, costs will need to be recovered from the next contract value.
- Assessment of student needs could not be located for four students and consequently costs and provision could not be confirmed as being in accordance with assessed need.
- We were unable to locate the cost calculations for the students in our sample, in order to verify them.
- Costs relating to a residential course which did not take place had been incorrectly allocated to students. Subsequently the Council agreed that the College can use this funding to offset transport costs;
- Documentation provided by the College in terms of the review / monitoring of student progress was not comprehensive and did not indicate the effectiveness of the funding received.
- Parental / guardian consent to share data was not evident in a number of instances.
- Documentation required within the terms of the SLA was not being provided with the termly invoices.

Agresso

The implementation of Agresso continued to be one of the major focusses of our work during the year, and in the third quarter we undertook the following activities:

- On-going representation on the FutureWorks Board until its dissolution in December 2014 - providing assurance to the Board and the Audit Committee at various stages of the programme.
- Working with the Payroll team to undertake and review payroll reconciliations in support of the payment of the Council and Wolverhampton Homes payrolls from Agresso.
- Continuing to provide significant internal audit resources to assist the Hub in clearing the backlog of invoices for payment.
- Focusing particular attention on the payments processes, specifically where arrangements have been made to facilitate payments outside normal processes and in monitoring duplicate payments.
- Undertaking a piece of work designed to provide assurance in respect of the benefits realisation process.
- Providing extensive and on-going general advice and support in respect of the project.

In addition to the above, we are currently undertaking full end to end audit reviews of all key systems, in order to provide assurance on the implementation of Agresso.

The extent of the role we have played in the implementation of Agresso has inevitably impacted upon our ability to complete a number of the planned audits within the current year. However, we will continue to review our planned audit capacity in line with the changing risk profile of the Council, and audit resource will continue to be targeted towards high risk areas.

Managed Audits

Managed audits are the work we do on the Council's key financial systems and incorporate the requirements of the external auditors (PwC), in order that they can place reliance on our work and thereby reduce their own year-end testing accordingly. The 2014/15 programme of managed audits has now commenced and will be completed in the coming months.

The follow up of previous recommendations

In quarter 4 we intend to commence our follow up work on key recommendations made as part of the limited assurance reports we issued in 2013/14. Progress on this will be reported at future Audit Committee meetings.

Counter Fraud Activities

We have continued to investigate all allegations of suspected fraudulent activity, during the year. Details of these have been presented to, and monitored through the work of the Audit Committee's Investigations Sub-Committee, along with details of a number of new initiatives put in place in order to tackle fraud across the Council.

Wolverhampton Homes

In November we successfully bid for the Internal Audit Contract for Wolverhampton Homes for a period of three years commencing 1 April 2015 (with an option to extend up to 12 months). We believe this represents a good achievement for the service in the face of well-established private sector competition.