

Wolverhampton City Council

OPEN INFORMATION ITEM

Audit Committee

Date **30 January 2012**

Originating Service Group(s)	<u>DELIVERY</u>	
Contact Officer(s)/	<u>P FARROW</u>	<u>R MORGAN</u>
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Title/Subject Matter	AUDIT PLAN 2011/12 - OUTTURN TO 31 DECEMBER 2011 AND AUDIT WORK UPDATE	

SUMMARY

That Members of the Audit Committee note the outturn position as at 31 December 2011 and the information relating to current audit work.

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1. PURPOSE AND BACKGROUND

- 1.1 The purpose of this report is to update members on progress against the Audit Plan for 2011/12 and to provide information on recent work that has been completed.
- 1.2 The plan for the remainder of the year will remain under constant review and is based on the assumption that current vacancies will not be filled in view of the current financial climate in which the Council operates and the savings targets that are likely to be required in order to continue to deliver services to the residents of Wolverhampton.

2. DETAILS

- 2.1 The Internal Audit Update Report as at 31 December 2011 (Quarter 3) 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 our overall opinion in our Annual Internal Audit Report issued at the year end. It also updates members on various other activities associated with the internal audit service.

3. FINANCIAL IMPLICATIONS

- 3.1 The Audit Plan is being delivered within the Audit Services budget.
- 3.2 Due to the continued review of order processing and creditor payments a total of £0.194m has either been stopped prior to payment or recovered from suppliers.
- 3.3 Benefit matches reported via the National Fraud Initiative has resulted in £0.034M being recovered and investigation work on Single Person Discount has resulted in a further £0.055M being recovered.
- 3.4 These actions have prevented the council from overpaying a total of £0.283M.
[DM/18012012/S]

4. LEGAL IMPLICATIONS

- 4.1 There are no direct legal implications arising from this report.
[MW/17012012/V]

5. EQUAL OPPORTUNITIES IMPLICATIONS

- 5.1 There are no direct equal opportunities implications arising from this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from this report.

7. SCHEDULE OF BACKGROUND PAPERS

Internal Audit Plan 2011/12
Internal Audit Reports

Wolverhampton

City Council



Internal Audit Progress Report – Quarter 3 (2011/12)

Audit Committee – 30 January 2012

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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 2011/12 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 Members 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:

Strong	There is a sound system of control designed to achieve the system objectives with controls being consistently applied.
Satisfactory	Whilst there is a basically sound system of control, there are weaknesses which may put some system objectives at risk.
Weak	Weaknesses in the system of controls are such as to place the system objectives at risk.
Unsatisfactory	Control is generally weak leaving the system open to significant error or abuse.

2 Summary of work completed

The following audit reviews have been completed to date in the current year:

Key MA = Managed Audit

Audit	Opinion
Creditors MA	Strong
Housing Benefits MA	Strong
Housing Benefits MA (Q3)	Strong
Cash and Banking MA 2011/12 (Q1&2)	Strong
Equal Pay – Project Governance	Strong
Carbon Reduction Assurance Statement	Strong
Truancy Fixed Penalties	Strong
Bert Williams Leisure Centre Contract Audit	Strong
Pensions Payroll	Satisfactory
Monthly Payroll Q3 Testing	Satisfactory
Council Tax MA	Satisfactory
NNDR MA	Satisfactory
Monthly Payroll MA	Satisfactory
Assessment and Billing MA	Satisfactory

Debtors MA	Satisfactory
Capital Expenditure MA	Satisfactory
Cash Collection and Banking MA	Satisfactory
Equal Pay Claims	Satisfactory
Single Status	Satisfactory
Schools Admissions (Appeals)	Satisfactory
BSF – Sign Off Process (Stages 0 - 2)	Satisfactory
BSF – PFI Audit	Satisfactory
Contaminated Land Grant Determination	Satisfactory
Internet and E-mail Policy	Satisfactory
Benefits Fraud (including sanctions)	Satisfactory
Civic Centre and St Peter's Car Parks	Satisfactory
Card Payments	Satisfactory
Energy Management	Satisfactory
WMITA Annual Assurance Audit 2010/11	Satisfactory
Payroll Contribution Statements for WMPF 2009/10	Satisfactory
Payroll Contribution Statements for WMPF 2010/11	Satisfactory
TR17 Teachers Pensions Return Certification	Satisfactory
Licensed Deficit Scheme	Satisfactory
Art Gallery Foreign Travel	Satisfactory
Art Gallery Café Takings	Satisfactory
Little Civic Slade Rooms	Satisfactory
Continuity Planning	Weak
VR Payments – Calculation Checks	Weak
Voluntary Redundancy Scheme (March 2009 and June 2010)	Weak
Equal Pay Settlement Calculations	Weak
Volunteer Drivers	Weak

Also, 30 school audits have been completed to date, (5 Strong, 24 Satisfactory and 1 Weak).

Year on year comparison

A total of 71 pieces of audit work have been completed so far in the current year, where an audit opinion has been provided. A summary of these audit opinions, with a comparison over previous years is given below:

Opinion	2011/12 (to date)	2010/11	2009/10
Strong	13	8	10
Satisfactory	52	50	53
Weak	6	16	24
Unsatisfactory	0	12	8

As can be seen from the above table, there is an improvement in the level of audit opinions provided over the periods concerned.

Follow up of previous recommendations

The majority of follow up work is now being addressed appropriately by managers and once again, there are no instances to report where audits have been carried out where recommendations have not been implemented as previously agreed.

3 Key issues arising since the last progress report

The only report issued with a weak or unsatisfactory opinion since the last report to Audit Committee was as follows:

Audit	Opinion
Equal Pay Settlement Calculations	Weak

This review was based on the position of the financial model up to 20 September 2011. The assessment related to the data quality issues associated with the Council's Payroll system, thus resulting in material errors being identified for those calculations highlighting the worst case scenarios. These errors were immediately rectified and the revised financial model figures were reported immediately to the Members Reference Group on 3 October 2011. Based on the continual data validation work carried out by the Equal Pay Project Team, in conjunction with Service Managers and Schools, and the continual assurance work carried out by Audit Services this area would now be assessed as satisfactory.

Managed Audits

Managed Audits are the work we do on the Authority's key financial systems and incorporate the requirements of the External Auditors, in order that they can place reliance on our work and thereby reduce their own year-end testing accordingly.

With regard to progress to date, the programme of Managed Audit testing so far, has confirmed that reasonable assurance can be given that the controls in place on the key financial systems are satisfactory. Similarly, follow up work undertaken shows that recommendations are generally accepted and actions taken to improve controls where necessary.

School Financial Regulations

In conjunction with Schools, Skills and Learning, Audit Services has been actively involved in a major review and update of the schools' current Financial Regulations / Standing Orders. The revised procedures which will be renamed Financial Procedures Rules and Contract Procedure Rules are due to be operational from 1 April 2012.

Issues identified in the 2010/11 Annual Governance Statement

The below provides members with a brief update of the action being taken by the Authority in addressing the significant governance issues identified in the 2010/11 Annual Governance Statement:

Significant Governance Issue	Update as at 31 December 2011
Partnership governance	
<p>Partnership governance arrangements include responsibility for monitoring performance and managing risk. Improvements are required to the Risk Management arrangements within the major partnerships, in order to ensure that the risks associated with joint working are adequately identified and managed by the Council in conjunction with the appropriate partner. A Partnership Protocol has been agreed. Work continues in collating a partnership register and a reporting mechanism whereby the status of partnerships in which the Council is involved at a significant level are monitored. This is to ensure that adequate risk management arrangements are in place.</p>	<p>A list of major partnerships has been compiled and a review of the governance arrangements is now to be undertaken with a key focus on ensuring there are adequate Risk Management arrangements.</p>
Single Status	
<p>The Council still has to implement Single Status, a national agreement between the National Joint Council (NJC) for Local Government and Signatory Trades Unions made on 1 April 1997. The Council has a dedicated project team to implement and govern this process. An independent 'lessons learned' review into the COT3 payments made in 2007/2008 has been undertaken and good practice recommendations following the review are being fed into the Council's overall improvement plan.</p>	<p>Whilst some progress has been made in respect of the Single Status project, identified risks remain regarding implementation. Internal Audit have closely monitored progress of the project and have provided ongoing assurance in respect of the integrity of the process. To this end a programme of audit work has been developed and agreed with the Project Executive.</p>
Proposed strategic partnership	
<p>During 2009/2010 the Council concluded negotiations about the proposed strategic partnership with Axon Solutions Limited and agreed a settlement payment for work completed. The Council has commenced an independent 'lessons learned' review of the proposed partnership and the findings will be fed into the Improvement Plan.</p>	<p>The review has been completed and a list of 13 recommendations produced. The Chief Executive has committed to implementing all of the recommendations</p>
Contingency plans	
<p>It is acknowledged that the Council's contingency plans associated with continuity of service in the event of a major service disruption or disaster</p>	<p>Business Continuity plans and arrangements are in place for all key areas of service delivery. Work is also</p>

<p>require improvement, and resources have been committed to this process. There still remain ongoing issues.</p>	<p>underway to review and refresh the Major Incident Plan.</p> <p>Disaster Recovery arrangements are being reviewed and restructured to ensure the Authority has resilience in respect of ICT.</p>
<p>Organisational restructure</p>	
<p>During 2010/2011 the Council began a significant organisational restructure of its senior management arrangements. The changes in roles and responsibilities present an increase in risk to the delivery of services and the effectiveness of the internal control system during transition to the new structure. These changes are being monitored and evaluated using project management techniques to ensure any issues are identified and addressed at an early stage.</p>	<p>As originally proposed at the outset of the restructure, the effectiveness of the revised operational model has been closely monitored. A review has been carried out by an external consultant and some revisions to the Assistant Directors portfolios of services were recommended and agreed. These changes have been recently implemented and will continue to be monitored as the Council continues its transformation.</p>
<p>Information governance</p>	
<p>The Council realises the value and importance of effective information governance throughout the Council and acknowledges that improvements are required to the way in which information is stored, managed and disposed of. A robust Information Governance Strategy will be developed over the coming year which will be supported by a policy framework containing information policies, procedures and guidelines.</p>	<p>A new post of Senior Auditor (Information Governance) has been created within Audit Services and an appointment has been made. An audit of existing practice is being carried out and initially a high-level report will be submitted to SEB in February with recommendations as to the required Corporate Strategy, Policies and Procedures to embed best practice. The implementation will be managed as a Corporate Project and subject to the same rigour as others. The recommendations following the recent audit by the Information Commissioners Office will also be incorporated into the policies and procedures.</p>
<p>Significant budget savings</p>	
<p>The Council has identified that it needs to make significant budget savings over the medium term in order to address the financial challenges that are predicted. These challenges include the requirement to:</p> <ul style="list-style-type: none"> • fund the outcome of single status job evaluation and equal pay claims; 	<p>The budget setting process comprises:</p> <p>July - Preliminary 'scene setting' report detailing the Council's financial challenges and Central Government requirements and changes.</p>

<ul style="list-style-type: none"> • cope with the impacts of the economic recession on income receipts and demand for services; • ensure that treasury management risks are identified and managed effectively; • deliver on major capital programmes at a time of diminishing capital receipts; • balance the growing demand for Council services against the impact of significant cuts in external funding. 	<p>October - Detailed report on the forthcoming years Budget and the Medium Term financial challenges; this report is subject to consultation and scrutiny.</p> <p>December – Updated report produced; subject to further scrutiny.</p> <p>February – Final Budget report produced.</p> <p>The reports contain a comprehensive Budget Risk Assessment. Regular budget reports are produced during the year informing and updating members and officers as to progress.</p>
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Completion of the Audit Plan

Members will be aware that this has been a transitional year for the internal audit service and that there has been on-going dialogue with directors and departmental management teams to take account of in-year changes as they arise, and ensure that the limited audit resource is targeted in the most appropriate risk based manner.

We continue to work with senior management to agree audit work to be undertaken in order to provide the most focussed and effective assurance.

Savings

The division monitors actual and potential savings identified during the course of audit work and savings of £19,375 have been identified during the current year to date. In addition, the division continues to review the order processing and creditor payments system for potential duplicate payments. There has been a noticeable decrease in both the number and value of duplicate payments identified since the previous year as indicated below and the number and value of duplicate payments has returned to previous levels. Consequently, it is felt that the figures reported last year were abnormal and controls now appear to be operating effectively.

Status as at 31 December 2011

- 61 duplicate payments identified and stopped prior to payment.
- Total value of £140,077.
- 65 payments to the value of £54,474 have been or are in the process of being recovered from suppliers.
- In addition a number of benefit matches reported via the National Fraud Initiative (NFI) have been processed. To date, 585 are in progress or have been investigated with 24 errors and 4 cases of fraud identified, resulting in savings of £33,970 being recovered.
- Finally, the division undertakes the investigation work on Single Person Discount (SPD) referrals via NFI and a total of 780 cases have been investigated. Of these, 67 cases of SPD have been referred to Council Tax for calculation and recovery of discount applied

to which people are not entitled. Savings totalling £55,197 have been identified and are currently being recovered.

4 Audit development

Members will be aware of the PWC Review of Internal Audit Effectiveness that was carried out last year and that the project plan arising from their recommendations continues to be monitored separately to this report.

As part of the Council's move towards adopting systems thinking processes, we have also undergone a systems thinking intervention and are currently going through a redesign process in order to address the issues arising from the intervention. This redesign will accompany the recommendations arising from the PWC review.

Agreed fraud reporting protocol with the West Midlands Police

In December 2011 Audit arranged a joint working protocol with Phil Cape the Wolverhampton CID inspector for any relevant fraud investigations. He explained that a recent re-organisation had left West Midlands Police in a very strong position to respond to fraud-based enquiries and we have agreed the following protocol:

- We will send any initial fraud report to Inspector Cape, supported by a telephone call.
- He will screen and identify the lines of enquiry having spoken with the Economic Crime Unit (ECU) if necessary.
- If any evidential statements/exhibits require collection, an agreed time and date will be set with audit staff and an officer briefed about what exactly they are to do. While at this stage the officer will not be a detective, they will be working to an investigative plan as to what is to be achieved.
- The enquiry will then be allocated according to the crime type – with complex fraud invariably being managed by detectives within the ECU as above.
- We will then be informed who owns the enquiry and of any subsequent developments such as arrest, charge, etc.

This will make use of existing processes within West Midlands Police and involve Inspector Cape acting as our main point of contact in all relevant future fraud investigations.