

Wolverhampton City Council

OPEN INFORMATION ITEM

Audit Committee

Date **24 September 2012**

Originating Service Group(s)

DELIVERY

Contact Officer(s)/

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Title/Subject Matter

INTERNAL AUDIT UPDATE (QUARTER 1 – 2012/13)

SUMMARY

That Members of the Audit Committee note the internal audit update as at 30 June 2012 (Quarter 1 – 2012/13).

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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 2012/13 and to provide information on recent work that has been completed.

2. DETAILS

- 2.1 The Internal Audit Update Report as at 30 June 2012 (Quarter 1) 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 The continued review of order processing and creditor payments has identified duplicate payments totalling £0.085M. Of this, £0.066M was actually stopped prior to payment and £0.019M has been, or is in the process of being, recovered from suppliers. In addition to this the processing of benefit matches reported through the National Fraud Initiative has resulted in the recovery of £0.184M. These combined actions have either prevented or recovered a total expenditure of £0.269M. [GE/12092012/I]

4. LEGAL IMPLICATIONS

- 4.1 There are no direct legal implications arising from this report. [MW/11092012/H]

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

Audit Services - Corporate Assurance Plan 2012/13

Wolverhampton

City Council



Internal Audit Progress Report – Quarter 1
Audit Committee: 24 September 2012

Contents:

1. Introduction
2. Summary of work completed
3. Key issues arising



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 2012/13 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:

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

2 Summary of work completed

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

Key: AAN = Assessment of Assurance Need

Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
Elections – Postal Voting	Medium	-	-	4	4	4	Substantial
Jacobs Partnership Contract Review	Medium	-	7	3	10	10	Satisfactory
Senior Officers Salaries over £50K check (figures to be disclosed for the 2011/12 final accounts)	High	-	-	-	-	-	N/A
Senior Officer Emoluments (figures to be disclosed for the 2011/12 final accounts)	High	-	-	-	-	-	N/A
New Park Special School	Medium	-	4	12	16	16	Satisfactory
Wilkinson Primary School	Medium	-	2	7	9	8 (i)	Satisfactory
Christ Church CE Junior School	Medium	-	-	6	6	6	Substantial
Graiseley Primary School	Medium	-	4	2	6	6	Satisfactory
Wolverhampton Girls High School	Medium	-	1	5	6	6	Substantial

Notes

- (i) The recommendation which was not accepted related to the banking of childcare income directly to the school budget rather than to a separate account as required by Financial Procedure Rules for Maintained Schools with Delegated Budgets. It should be noted that the separate accounts were independently audited and all income was properly accounted for.

Year on year comparison

A total of 7 pieces of audit work have been completed so far in the current year, where an audit opinion has been provided. In addition to those set out above, this includes work undertaken as part of the wrapping up of the 2011/12 Assurance Plan and work specifically requested by managers. A summary of these audit opinions, with a comparison over previous years is given below:

Opinion	2012/13 (Quarter 1)	2011/12	2010/11
Substantial (was Strong)	3	36	8
Satisfactory	4	62	50
Limited (was Weak)	-	7	28

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 significant recommendations have not been implemented as previously agreed.

3 Key issues arising since the last progress report

Issue of final reports relating to initial work primarily undertaken during 2011/12

(not included in the above table)

Software Licence Management

The final audit report on the software licence management arrangements concluded that the level of control was leaving the system open to error or abuse. Key areas identified included the following:

- Absence of a corporate software management policy.
- Failure to adequately resource software management and control.
- Failure to maintain an inventory of software licences held.
- Failure to configure IT equipment to prevent the installation of unauthorised software.

All of our recommendations were agreed with senior ICTS management and a Software Policy has now been drafted. The implementation of the Policy and the remaining recommendations will continue over the coming months. A number of these recommendations will require a corporate approach in order to ensure their successful implementation.

Building Maintenance and Minor Works Term Contract

Following a whistleblowing investigation into specific, ultimately unsubstantiated allegations regarding the letting and operation of a building maintenance and minor works term contract, the Assistant Director – City Services requested a comprehensive review of arrangements for the re-letting of the contract. Our review concluded that the level of control placed the integrity of the system at risk.

The main issues identified in the tender (and subsequent retender) process arose as it was essentially managed and controlled by a single officer. The integrity of the process was therefore difficult to establish in the event of subsequent challenge. An additional, though related, area of concern was the decision to retender the contract following an initial tender exercise. Whilst the motivations of the officer concerned appeared to be well intentioned (i.e. to secure increased value for money for the Council), various weaknesses in the procedures followed were identified. A number of significant recommendations were made following the audit review and all were agreed for implementation by June 2012. The Assistant Director - City Services has agreed to monitor implementation of the recommendations.

It should be noted that the audit did not identify any impropriety by officers of the Council in relation to the letting and management of the building maintenance and minor works term contract.

Use of External Solicitors

Following a request by the Audit-Sub Committee, a review on the Council's use of external solicitors was completed. Our review focused specifically on the use of external solicitors in relation to ad hoc high profile projects and project based work relating to conveyancing. It excluded the engagement, and payment for, counsel, which had been covered in a previous audit.

The review identified that extensive use was made of external solicitors, for a variety of reasons including:

- where specialisms are not available in house and / or it is considered uneconomical to maintain specialisms permanently in house;
- where it is considered that staffing capacity limitations prevent legal work from being undertaken in house; and
- where Legal Services consider it more economical to engage external firms to deal with large scale project work.

A number of recommendations were made in relation to the issues identified as representing medium or moderate risk to the Council. These include the following:

- There were no documented procedures governing the engagement of external solicitors.
- Documentation was not routinely maintained to support the selection process.
- Full details were not routinely provided to Members where required under Contracts Procedure Rules.
- Official orders were not placed prior to the engagement as required by Financial Procedure Rules.
- Hourly rates detailed on invoices were not checked against agreed rates.

All recommendations arising from our work in this area have been agreed for implementation by December 2012 at the latest.

2012/13 Audit Reviews

Jacobs Partnership Contract Review

Whilst our review of performance monitoring and value for money arrangements associated with the Jacobs partnership contract provided satisfactory assurance that controls were sufficient, a number of amber recommendations were nevertheless made. These generally related to improving the quality and effectiveness of performance monitoring. All recommendations arising from our work have been agreed for implementation by March 2013 or on the commencement of the next contract in November 2013.

Managed Audits

Managed Audits are the work we do on the Authority'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.

All 2011/12 Managed Audit work was completed to the satisfaction of PwC. In all cases satisfactory or substantial assurance was provided. Our round of the 2012/13 Managed Audits will be commencing shortly.

Information Governance

We contribute to the Council's continued efforts to improve its information governance framework, through the work of a specialist Senior Auditor. Since commencing in January 2012 they have worked closely with members of the ICO Project Team to address the issues identified in the Information Commissioner's recent reports. Work is also being undertaken in support of the Senior Information Risk Owner and the newly established Information Governance Board, in order to address wider corporate information governance issues. It is intended that when suitable policies and procedures have been established corporately, compliance, guidance and support will be provided through a programme of audit exercises.

Savings

We monitor actual and potential savings identified during the course of our audit and other associated assurance work undertaken across the Council, and we continue to review the order processing and creditor payments system for potential duplicate payments. The status of this work as at 30 June 2012 was as follows:

- 158 duplicate payments identified and stopped prior to payment.
- Total value of duplicate payments £66,428. This equates to approximately 0.06% of the total Council expenditure in the period.
- 15 payments to the value of £18,814 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, 600 are in progress or have been investigated with 28 errors and 18 cases of fraud identified, resulting in savings of £184,346 being recovered. This equates to 0.66% of benefits paid between 1 April and 30 June 2012.

Finally, we undertake the investigation work on Single Person Discount (SPD) referrals via NFI and a total of 313 cases have been investigated. To date, 153 customers appear to be claiming SPD to which they are not entitled. This equates to approximately 0.6% of the total number of customers claiming SPD. Once these cases have been processed the full savings will be identified.

It should be borne in mind that the above frauds and errors identified are very small relative to the total number of Council transactions and are therefore not material when taking into account the size of the overall payments made. However, significant efforts will continue to be made in order to reduce these wherever possible.

Counter Fraud Activities

We have continued to investigate all allegations of suspected fraudulent activity, throughout 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 Authority.

Shared Service Transformation Programme – the assurance framework and our role

We have agreed, and put in place, an internal audit assurance framework for the current Shared Service Transformation Programme as shown below:



Underpinned by Internal Audit representation at Programme Board level throughout

On-going assessment against the recommendations made by Patricia Hughes

Availability of internal audit staff at all stages for additional 'deep dive' testing

We propose to undertake a continuous high level review of the arrangements in respect of the implementation of the new system, providing assurance to the Senior Responsible Officer and the Section 151 Officer at various stages throughout the Programme, including:

Project Governance arrangements – a review of the governance and reporting structure and the decision making process;

Project Management arrangements – a review of the key project management controls in place i.e. project plan with clearly defined milestones, resourcing plans, and identification and management key project risks;

Procurement methodology/arrangements – a review of the procurement methodology followed and compliance with the prescribed approach. Evidence will be sought to ensure that appropriate sign-off and independent assurance (i.e. specialist legal advice) has been given around the completion of each stage of the process. At this stage, it is not our intention to provide an opinion around the technical details contained within the tender documentation and system specifications;

Tender evaluation and appointment process – a review of the evaluation approach/framework to be adopted for the review and evaluation of tender submissions to ensure there is a transparent process in place in the event of the process being challenged;

Risk Management – a review of how the risks associated with the project are being managed, and the role of the Audit Committee in reviewing these.

Reporting

Summary reports will be issued at various stages, outlining where assurance is being provided along with any issues arising. It is our intention that any red or amber issues that come to light will be communicated immediately, in order to allow for timely action to be taken. Once a successful supplier has been appointed, we will then undertake a further series of reviews around the actual implementation of the system.

As part of the above, we have recently issued our first ‘position statement’ report on this programme, focussing upon:

- the project’s current governance arrangements in order to ensure that an appropriate structure was in place to approve key decisions which also addressed the recommendations laid out in the Patricia Hughes report;
- project management arrangements; and
- the sign-off arrangements in respect of documentation required to be completed prior to publication of the OJEU notice.

The review aimed to provide assurance around both the governance and project management framework put in place to oversee the future delivery of the project, and at this stage of the programme, we were able to give a substantial level of assurance.

A programme of further and on-going reviews will be required at key stages of the project to provide assurance in respect of compliance with this framework.

Internal Audit are working closely with PwC in relation to the Shared Services Transformation Programme to ensure that our work is co-ordinated and assurance is provided efficiently.

Single Status Programme – the assurance framework and our role

Similar to the Shared Service Transformation Programme above, we have agreed, and put in place, an internal audit assurance framework for the Single Status Programme as shown below:



Underpinned by Internal Audit representation at Programme Board level throughout

On-going assessment against the recommendations made by Patricia Hughes and the follow-

up of recommendations made in previous audit reports

Availability of internal audit staff at all stages for additional 'deep dive' testing

Specific focussed reviews have been planned in respect of the various stages of the Single Status programme in order to provide assurance to the Senior Responsible Officer and the Section 151 Officer. These are as follows:

- **Pay Model Negotiation Process** – a review of both the logistical and governance arrangements in negotiating pay model options with the various unions;
- **Employee Notification – Data Management/Quality Review** – a review of the data requirements in respect of the notification process and process for validating/cleansing data prior to the production of notification letters;
- **Employee Notification – Logistical Arrangements** – a review of the logistical arrangements for preparing both staff and managers for the notification of single status outcomes. The scope of the review will also focus on the production and distribution of notification letters, as well as the support framework (i.e. helpdesk) to be put in place;
- **Single Status – Appeals Process** – a review of the process to be adopted for appeals and a compliance review to ensure and that appeals are being held in accordance with the approved process;
- **Single Status – Implementation Arrangements** – a review of the implementation strategy for the local implementation agreement. The review will also focus on the logistical and monitoring arrangements of changing an employee's terms and conditions based on the instruction received.
- **Single Status – Payroll Implementation** – a review of the arrangements for implementing the new pay and grading structure on the Council's Payroll System. The review will also focus on the accuracy of employee's pay and allowances at the date of implementation.

Reporting

Audit reports will be produced to support each of the above reviews. It is our intention that any red or amber issues that are identified throughout the reviews will be communicated immediately, in order to allow for timely action to be taken. To date we have completed an assurance review around the proposed changes to employee terms and conditions and we are in the process of carrying out assurance reviews around the Pay Model Negotiation Process and a review to provide assurance around the accuracy of data in preparation for the employee notification process which is due to take place on 1 October 2012. We also provide an on-going assurance role with their presence on the Single Status Board. There are currently no outstanding red or amber issues relating to our work on the Single Status project.

Equal Pay

Officers from Audit Services have been embedded into this project and we have previously undertaken assurance reviews around the Council's settlement strategy, the accuracy of

proposed settlement offers, and the accuracy of payments. We continue to have an on-going role in terms of providing assurance around future settlements.

Finally, we are also work closely with PwC in relation to Single Status and Equal Pay issues in order to ensure that audit resources are maximised, and that our work is co-ordinated to provide assurance efficiently and effectively.