

Wolverhampton City Council

OPEN INFORMATION ITEM

Audit Committee

Date **17 DECEMBER 2012**

Originating Service Group(s)

DELIVERY

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Title/Subject Matter

INTERNAL AUDIT UPDATE (QUARTER 2 – 2012/13)

SUMMARY

That Members of the Audit Committee note the internal audit update as at 30 September 2012 (Quarter 2 – 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 September 2012 (Quarter 2) 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 £0.098M. Of this, £0.072M was actually stopped prior to payment and £0.026M 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 £0.334M. These combined actions have either prevented or recovered a total expenditure of £0.432M.
[GE/03122012/Z]

4. LEGAL IMPLICATIONS

- 4.1 There are no direct legal implications arising from this report.
[MW/03122012/Q]

5. EQUAL OPPORTUNITIES IMPLICATIONS

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

6. ENVIRONMENTAL IMPLICATIONS

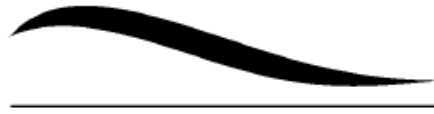
- 6.1 There are no direct environmental implications arising from this report.

7. SCHEDULE OF BACKGROUND PAPERS

Audit Services - Corporate Assurance Plan 2012/13

Wolverhampton

City Council



Internal Audit Progress Report – Quarter 2
Audit Committee: 17 December 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	
Previously reported in the Quarter 1 Report:							
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
Quarter 2							
Review of the Assurance Framework	High	-	5	-	5	5	Satisfactory
Bilston CE Primary School	Medium	-	5	2	7	7	Satisfactory
Bushbury Nursery School	Medium	-	3	3	6	6	Satisfactory

Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
Elston Hall Primary School	Medium	-	10	10	20	20	Satisfactory
Springdale Junior School	Medium	-	-	26	26	26	Satisfactory
Northwood Park Primary School	Medium	-	-	10	10	10	Substantial
Coppice Secondary School	Medium	-	3	7	10	10	Satisfactory
Palmers Cross Primary School	Medium	-	-	1	1	1	Substantial
Colton Hills Secondary School	Medium	-	3	11	14	14	Satisfactory
Single Status – Terms and Conditions	High	-	-	-	-	-	Satisfactory
SSTP – Project Management and Governance Arrangements – Position Statement July 2012	High	-	1	1	2	2	Substantial
CRC – Annual Assurance Review	High	-	5	1	6	6	Satisfactory
Carbon Reduction Credits – Assurance Statement	High	-	-	-	-	-	Substantial
Payroll Contribution Statements for WMPF	High	-	1	1	2	2	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 21 pieces of planned 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, additional work was undertaken as part of the wrapping up of the 2011/12 Assurance Plan and in response to specific requests by managers. A summary of the planned audit opinions given, with a comparison over previous years, is given below:

Opinion	2012/13 (Quarter 2)	2011/12	2010/11
Substantial (was Strong)	8	36	8
Satisfactory	13	62	50
Limited (was Weak)	0	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

Review of the Assurance Framework

The assurance framework provides the Council with a simple and comprehensive method for the effective and focussed management of the principal risks to meeting its objectives. It also provides a structure for the evidence to support the Annual Governance Statement (AGS), which is signed by the Leader of the Council and Chief Executive, and is published with the Statement of Accounts. We identified five development opportunities which could strengthen the assurance framework, arising from the following:

- The previous lack of an up to date risk register detailing the corporate risks faced by the Council and the measures in place to manage these risks.
- The need to strengthen the Council's governance and risk management arrangements in respect of its key partnerships.
- The need to extend accountability surrounding the completion of the annual controls assurance statements.
- Improving the risk and assurance reporting to the Audit Committee.
- The need to develop an overall assurance map.

All of these issues have been agreed and an action plan is in place in order to assist in their implementation.

CRC Pre-submission Assurance Review

A systems audit of the Carbon Reduction Commitment (CRC) pre-submission procedures was undertaken to ensure that the Council could comply with Department of Energy and Climate Change (DECC) directives following the Climate Change Act 2008. Whilst

satisfactory assurance was provided that risks material to the achievement of the system's objectives were being effectively managed and controlled, the following concerns were identified:

- Governance arrangements relating to CRC processes were insufficiently robust.
- The Council is unable to clearly monitor its commitment to carbon emissions reduction targets due to the number of policies in circulation and a lack of clarity regarding responsibility for CRC policy.
- Officers responsible for the collation of CRC submission data do not have access to an up to date asset register.

Recommendations designed to address these concerns have been agreed with senior management for implementation within the current financial year.

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.

Our approach to undertaking Managed Audit work has been reviewed by our Systems Thinking team with a view to eliminating all unnecessary work and improving efficiency. All identified efficiencies have been agreed with PwC and work on 2012/13 Managed Audits has now commenced and will be completed in the coming months.

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 September 2012 was as follows:

- 202 duplicate payments identified and stopped prior to payment.
- Total value of duplicate payments £98,342. This equates to approximately 0.04% of the total Council expenditure in the period.
- 33 payments to the value of £26,102 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, 612 are in progress or have been investigated with 28 errors and 35 cases of fraud identified, resulting in savings of £333,967.49 being recovered. This equates to approximately 0.6% of benefits paid between 1 April and 30 September 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:



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.

We continue to work closely with the external auditors (PwC) in relation to this Programme so that our work is co-ordinated and assurance can be provided efficiently. This has included participating in a workshop with PwC to develop an Assurance Framework for the programme and a further session is planned to determine precise assurance activities required. As at 31 October 2012, the following combined assurances from internal and external audit had been given against the programme:

Programme area	External and independent assurance obtained to date (the third line of defence)
<p>Project Governance The governance and reporting structure and the decision making process.</p>	<p>Internal Audit position statement – September 2012 gave substantial assurance on the project’s governance arrangements regarding an appropriate structure being in place to approve key decisions and which addressed the recommendations laid out in the Patricia Hughes report.</p>
<p>Project Management The key project management controls in place i.e. project plan with clearly defined milestones, resourcing plans, and identification and management of key project risks.</p>	<p>PwC health check – September 2012 concluded that the programme has robust project and risk management arrangements in place.</p> <p>Internal Audit position statement – September 2012 gave substantial assurance on the project management arrangements.</p>

<p>Procurement methodology The procurement methodology followed and compliance with the prescribed approach. , appropriate sign-off and independent assurance has been given around the completion of each stage of the process.</p>	<p>Internal Audit position statement – September 2012 gave substantial assurance on the sign-off arrangements in respect of documentation completed prior to publication of the OJEU notice.</p>
<p>Tender evaluation and appointment process 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.</p>	
<p>Risk Management How the risks associated with the project are being managed, and the role of the Audit Committee in reviewing these.</p>	<p>The Audit Committee in September 2012 received the following reports:</p> <p>PwC health check - concluding that the programme has robust project and risk management arrangements in place.</p> <p>Internal Audit update report – the first ‘position statement’ giving substantial assurance around both the governance and project management framework put in place to oversee the future delivery of the project.</p>

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

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. As at 30 September 2012 we had completed assurance reviews in respect of the proposed changes to employee terms and conditions. In addition, detailed testing was performed on the print extract to be used for notifying all Council employees of their personal outcomes. Details of this were verbally reported back to the Board and summarised in the Employee Notification and Support review which is in the process of being completed. In accordance with the Assurance Plan, reviews are due to be completed in respect of the appeals process, negotiation and implementation of the Council’s Single Status agreement and implementation of the new pay structure on the Council’s payroll system. We also provide an on-going assurance role with our 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. It is proposed that a health check review will be undertaken to assess whether previous recommendations have been implemented and review the system for managing future claims.

Procurement Transformation Programme – the assurance framework and our role

Similar to the above key programmes, we are in discussions with the Head of Strategic Sourcing to develop and put in place an internal audit assurance framework for the new Procurement Transformation Programme. This is likely to include Internal Audit representation on the Procurement Transformation Programme Board. In advance of this programme and at the request of the Head of Strategic Sourcing, we are undertaking an audit review of Class III and IV Tendering Procedures.