

Wolverhampton City Council

OPEN INFORMATION ITEM

Audit Committee

Date **11 March 2013**

Originating Service Group(s)

DELIVERY

Contact Officer(s)/

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Title/Subject Matter

INTERNAL AUDIT UPDATE (QUARTER 3 – 2012/13)

SUMMARY

That Members of the Audit Committee note the internal audit update as at 31 December 2012 (Quarter 3 – 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 31 December 2012 (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 The continued review of order processing and creditor payments has identified duplicate payments totalling £0.152M. Of this, £0.114M was actually stopped prior to payment and £0.037M 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 £0.350M. These combined actions have either prevented or recovered a total expenditure of £0.502M. [GE/26022013/G]

4. LEGAL IMPLICATIONS

- 4.1 There are no direct legal implications arising from this report. [MW/26022013/S]

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 3 Audit Committee: 11 March 2013

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 Q1 and Q2 Reports:							
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
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
Elston Hall Primary School	Medium	-	10	10	20	20	Satisfactory
Springdale Junior School	Medium	-	-	26	26	26	Satisfactory

Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
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
Quarter 3							
St Martin's CE Primary School	Medium	-	-	5	5	5	Substantial
Field View Primary School	Medium	-	-	5	5	5	Substantial
Stowlawn Primary School	Medium	-	3	10	13	13	Satisfactory
Edward The Elder Primary School	Medium	-	7	2	9	9	Satisfactory
Uplands Junior School	Medium	-	1	8	9	9	Satisfactory
Holy Rosary Catholic Primary School	Medium	-	-	4	4	4	Substantial

Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
Vine Island Improvement Scheme – Tendering Procedures	Medium	-	-	1	1	1	Substantial
Single Status – Employee Notification and Support – Data Management	Medium	-	1	-	1	1	Substantial
Capital Expenditure Managed Audit	High	-	-	-	-	-	Substantial
Family Support and Group Activity Budget	Medium	-	6	1	7	7	Satisfactory
Deferred Payment Agreements	Medium	-	9	3	12	12	Limited
Day Opportunities – Client Income Collection	Medium	-	-	-	-	-	Satisfactory
Outreach Client Finances	Medium	-	4	6	10	10	Satisfactory
In-Tend – Systems / Compliance Review	Medium	2	4	2	8	8	Limited
Tender Register	Medium	-	3	2	5	5	Satisfactory
Cultural Identity Group	Medium	2	2	-	4	4	Limited
Procurement of Insurance	High	3	3	-	6	6	Limited
Corporate Procurement – Tendering Arrangements for Class III and IV Contracts	High	5	5	-	10	10	Limited

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 37 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 set out below:

Opinion	2012/13 (Quarter 3)	2011/12	2010/11
Substantial (was Strong)	14	36	8
Satisfactory	20	62	50
Limited (was Weak)	3	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

In the following five audit reviews, we were only able to provide a **limited** level of assurance that the objectives behind each of these areas were being adequately managed and controlled:

Corporate Procurement – Tendering Arrangements for Class III and IV Contracts

An audit of the tendering procedures followed by Corporate Procurement for class III and IV contracts (those with a value of over £50,000) was undertaken in order to help give the new Interim Head of Strategic Sourcing an overview of how the service had performed and operated in the past. Since commencing in post, the Interim Head of Strategic Sourcing had raised his concerns over past tendering processes.

The findings of our review supported the view of the interim Head of Strategic Sourcing, and in our opinion the tendering processes for class III and IV contracts could provide only a limited level of assurance. We found a number of cases of inconsistencies and ambiguities at various stages of the procurement processes, particularly around the scoring of bids and an overall lack of detail in the records available.

The recommendations arising from the above were agreed with the Interim Head of Strategic Sourcing, who is putting in place a whole range of improved working practices over the coming months.

In-Tend

The In-tend system was implemented during March 2011, by the Council's Corporate Procurement section. The system was introduced to form part of a cost saving and efficiency drive, as well as a means of delivering service improvements within Corporate Procurement. The system, which has already been successfully implemented at two neighbouring Black Country Councils (Dudley and Walsall), consists of three main elements;

- **A database** which holds details of suppliers who have expressed an interest in tendering for contracts at Dudley MBC, Walsall, Wolverhampton City Council, and other Councils who have purchased the same system. When a Council issues a tender notice for specific goods and services, the system automatically e-mails relevant suppliers and invites them to tender;
- **The e-tendering system** where tenders are sent out and received electronically reducing the need for paper copies. This procedure also ensures a fully auditable process; and
- **A contract management module** which allows details of all Council contracts to be captured and monitored.

The system was expanded to allow for the other members of the Black Country Purchasing Consortium to use the same database enabling local companies to register once to supply all participating local authorities.

We found that the use of the Council's e-tendering system had been sporadic, based on the number of manual tender exercises that had taken place since its implementation. This in turn has highlighted the lack of awareness, training and procedures surrounding the use of the system, along with the need to update the on-line contracts register. Finally, the e-tendering system was not being used for the evaluation of tenders, instead separate evaluation documentation was being maintained but was not being scanned into In-tend in order to provide a full audit trail/history of evidence.

Each of our recommendations arising from these issues, were agreed with the Interim Head of Strategic Sourcing and the Compliance and Administration Manager for implementation within a tight timescale.

Procurement of Insurance

Following a request from the Strategic Director of Delivery, an audit review of the procurement process associated with the provision of external insurance cover to the Council was undertaken. As stated above, we concluded that the controls established for the procurement of the Council's external insurance cover provided only limited assurance, with specific issues arising from the following:

- The Council's Constitution was felt to be open to interpretation around officer delegations, by the officers involved in its procurement;
- Delegated authority not formally sought from the Cabinet (Resources) Panel prior to awarding the contract for the Council's external insurance cover, nor the reporting of the contract award back to the Panel;
- The Council's Corporate Procurement Division were not formally notified of the contract awarded in respect of the Council's external insurance cover, nor was their input and advice sought; and
- An official purchase order was not raised in respect of the procurement of services.

We have agreed a series of recommendations with the relevant officers, with an implementation date of 31 March 2013.

Deferred Payment Arrangements

The 2001 Health and Social Care Act (Section 55) and the 1983 Health and Social Services and Social Security Adjudications Act (HASSASSA 1983) specify that the Council may enter

into a Deferred Payment Agreement with a client and a charge can be placed on their property once their written consent has been obtained so that any deferred care provision costs due to the Council can be recouped. Where a client is unwilling to enter into an agreement, the Council may place a compulsory charge.

The objective of our audit review was to evaluate the adequacy of the procedures and associated documentation relating to Deferred Payment Agreements and legal processes for placing a charge on a property to ensure that funds due to the Council can be recouped at the appropriate time in all applicable instances. The Deferred Payment Agreement documentation had been in the process of being finalised for a number of years and as a result had not been issued to any clients to date for their certification and acceptance. Consequently, no formal agreements existed between the Council and each client for a Deferred Payment Agreement, and instead the Council has relied instead on the provisions under HASSASSA 1983.

As a result the required certified consent forms required for a Deferred Payment Agreement had not been submitted to the Land Registry so that the voluntary charge can be placed on a property in the favour of Wolverhampton City Council. This increases the risk that debts due to the Council cannot be recouped.

We were informed that Financial Assessments were (and still are) referring cases to Legal Services for charges to be placed on properties, either as a pilot under the Deferred Payment Agreement scheme or under HASSASSA 1983; and were unaware of any failings in this process. The Acting Head indicated that Financial Assessments have been able to recover monies wherever applicable to date despite the lack of a robust process being in place.

In conclusion, Financial Assessments and Legal Services need to develop key procedures and associated roles and responsibilities to support the process of putting Deferred Payment Agreements in place. It is understood that test cases will be used to develop such procedures. At the time of reporting, Financial Assessments, Legal Services and the Corporate Procurement Unit were working towards revising an agreed format for the Residential and Nursing Home Care Service contract that is established with each client and care provider for implementation by April 2013.

All of our recommendations arising from this audit have been agreed for implementation by this April 2013 date.

Cultural Identity Group

The CIG was established during the early 1990's when Social Workers noted an increasing number of foster placements were breaking down, where black and mixed race young people had been placed with carers from different ethnic backgrounds to themselves. The purpose of the CIG is to work with young people and, where appropriate, carers in order to enhance the young person's cultural and racial identity to help prevent placements from breaking down.

The objective of our review was to deliver reasonable assurance on the current arrangements in relation to the work undertaken by the Cultural Identity Group in respect of Looked After Children. This also included a review of resources in order to ensure value for money is being provided. The absence of formal records and issues in relation to accounting for the costs of the service render any conclusions regarding value for money extremely difficult and key issues arising from our review of the Cultural Identity Group included the following:

- Suitable governance arrangements, for the Cultural Identity Group (CIG) were not in place. No clear role had been established for the group and membership arrangements were undefined. There was a significant risk that the group may not be operating effectively;
- Resources employed to provide CIG services were not suitably accounted for. As a result of this, the review was unable to establish the cost of operating the CIG or identify whether the services provided by the group offered value for money;
- The processes in place to identify and assess the need to promote cultural identity were not applied consistently. Therefore, it was not possible to demonstrate either that all needs had been identified or that referrals made had been dealt with equitably;
- No formal measures were in place to capture and monitor the outcomes of CIG and as such there was no method of identifying whether the work that the group are undertaking is meeting the needs of the young people it is working with.

All of the recommendations arising from our work in this area were agreed with the Head of Looked After Children Services, for implementation by 31 January 2013.

Other areas of potential interest to the Audit Committee

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 Managed Audits programme for 2012/13 is underway and scheduled to be completed in advance of the visit of PwC at the year end.

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 31 December 2012 was as follows:

- 239 duplicate payments identified and stopped prior to payment.
- Total value of duplicate payments £151,637. This equates to approximately 0.04% of the total Council expenditure in the period.
- 52 payments to the value of £37,345 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, 618 are in progress or have been investigated with 28 errors and 37 cases of fraud identified, resulting in savings of £349,623 being recovered. This equates to approximately 0.8% of benefits paid between 1 April and 31 December 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 December 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</p> <p>The procurement methodology followed and compliance with the prescribed approach. Evidence will be sought to ensure 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</p> <p>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</p> <p>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 31 December 2012 we had completed an assurance review in respect of the Employee Notification and Support process. In addition, detailed testing was performed on the print extract to be used for notifying all school based employees of their personal outcomes. Details of this exercise were verbally reported back to the Board. 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.

In addition to the above areas we have also been actively involved in the Pensions Auto-Enrolment Project which has been subsumed under the Single Status programme. We have been embedded into the project team and have audited the process, this work will be summarised in an assurance report, which will be presented to the Single Status Programme Board shortly. 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

We have also been heavily involved in 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. Further work will be required in respect of

this area following the recent outcome of the Birmingham City Council v Abdulla case. We continue to have an on-going role in terms of providing assurance around future settlements.

Finally, we are working 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 Interim 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, an audit review of Class III and IV Tendering Procedures has been completed and the results of this are summarised earlier in this report.