

Wolverhampton City Council

OPEN INFORMATION ITEM

Audit Committee

Date **8 July 2013**

Originating Service Group(s)

DELIVERY

Contact Officer(s)/

P FARROW**R MORGAN**

Telephone Number(s)

4460**5612**

Title/Subject Matter

ANNUAL INTERNAL AUDIT REPORT 2012/13

SUMMARY

That the contents of the Annual Internal Audit Report and the overall opinion that *“based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Authority by other providers as well as directly by Internal Audit, Internal Audit can provide reasonable assurance that the Council has adequate and effective governance, risk management and internal control processes”*, be noted.

1. PURPOSE AND BACKGROUND

- 1.1 The purpose of this report is to provide Members with an annual Audit Opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control processes.

2. DETAILS

- 2.1 This report gives a brief description of the role of Internal Audit, the control environment within which it operates and also provides a summary of the work carried out during the year to 31 March 2013.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications arising from the recommendations in this report. [GE/24062013/G]

4. LEGAL IMPLICATIONS

- 4.1 There are no direct legal implications arising from this report. (MW/24062013/J)

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

2012/13 Internal Audit Plan



Audit Services

Wolverhampton City Council Annual Internal Audit Report 2012/13



Section	
1	Introduction
2	Internal Audit opinion
3	Compliance with the CIPFA Code of Practice
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1. Introduction

- 1.1 Our internal audit work for the period from 1 April 2012 to 31 March 2013 was carried out in accordance with the Internal Audit Plan. The Plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the Council's governance, risk management and control processes.

In this way our annual report provides one element of the evidence that underpins the Annual Governance Statement the Council is required to make to accompany its annual financial statements. This is only one aspect of the assurances available to the Council as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the Council may rely, could include:

- The work of the External Auditors (currently PricewaterhouseCoopers - PwC)
- The result of any quality accreditation
- The outcome of any visits by Her Majesty's Revenues and Customs (HMRC)
- Other pieces of consultancy or third party work designed to alert the Council to areas of improvement
- Other external review agencies (i.e. Ofsted, the Information Commissioner's Office)

As stated above, the framework of assurance comprises a variety of sources and not only the authority's internal audit service. However, Internal Audit holds a unique role within a local authority as the only independent source of assurance on all internal controls. Internal Audit is therefore central to this framework of assurance and is required to acquire an understanding not only of the authority's risks and its overall whole control environment but also all sources of assurance. In this way, Internal Audit will be able to indicate whether key controls are adequately designed and effectively operated, regardless of the sources of that assurance. CIPFA have recently indicated that this role includes responsibility both for assessing the assurance available to the authority from other sources, whether internal or external, and for implementing a plan of internal audit work to obtain the required assurance.

- 1.2 The definition of internal audit, as described in CIPFA's Code of Practice, is set out below:

"Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources".

Overall Assurance

- 1.3 As the providers of internal audit to the Council, we are required to provide the Chief Executive and Section 151 Officer with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control processes. In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide to the Chief Executive and Section 151 Officer is reasonable assurance that there are no major weaknesses in the Council's governance, risk management and control processes. In assessing the level of assurance to be given, we have taken into account:

- All audits undertaken for the year ended 31 March 2013.
- Any follow-up action taken in respect of audits from previous periods.
- Any key recommendations not accepted by management and the consequent risks.
- Any limitations which may have been placed on the scope of internal audit.
- The extent to which any resource constraints may impinge on the ability to meet the full audit needs of the Council.

2. Internal Audit opinion

2.1 We have conducted our audits in accordance with the CIPFA Code of Practice for Internal Audit in Local Government. Within the context of the parameters set out in paragraph 1.3 above, our opinion is as follows:

2.2 Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Authority by other providers as well as directly by Internal Audit, Internal Audit can provide **reasonable assurance** that the Council has adequate and effective governance, risk management and internal control processes.

However, throughout the year we did note a number of key control issues, either through our work, the work of other assurance providers or in the preparation of the Annual Governance Statement, and these are listed below:

- The External Auditors (PwC) identified a number of issues in their Annual Grants Certification Report. This report has been presented separately to the Audit Committee and action is underway to address these issues.
- The Information Commissioner's Office undertook a follow up review on the Council's information governance improvement plan in December 2012, which indicated that more work was required in this area. As above, the Council is putting in place processes in order to address these.
- While not fundamental to the overall control environment, we gave a 'limited' rating in the following areas:
 - Deferred Payment Agreements
 - In-Tend – Systems / Compliance Review
 - Cultural Identity Group
 - Procurement of Insurance
 - Corporate Procurement – Tendering Arrangements for Class III and IV Contracts
 - Corporate Information Governance Assurance Framework
 - Resilience Management

Significant governance issues arising from the Annual Governance Statement:

The Council recognises that the identification, evaluation and monitoring of risks is a key aspect in the governance of the organisation. The following matters represent the most significant current governance issues that are subject to attention in order to ensure that lessons are learnt and good practice is embedded.

FutureSpace: Corporate Landlord

The management of and responsibility for the Council's property assets is currently split between two directorates. Several initiatives and proposals for maintenance programmes and better targeted use of properties have been put forward. It is

necessary that clarity of ownership and control of decision making is determined to ensure effective progress is made. Also work is on-going to improve the co-ordination of responsibilities as the Council develops the role of a 'Corporate Landlord' between the Directorates, along with the continued development of a 'One Council' approach to the use of land and assets and the development of options and a strategy to utilise available properties for community use that are not Council owned property.

Information Governance

Following critical in-year reviews by the Information Commissioners Office in August and December 2012, the Council is putting in place a robust framework and effective working practices, including

- An established and operational Information Governance Board
- Mapped out work programme and resources
- A new Information Governance structure
- Information Governance policies have been approved
- Training programmes are underway

Partnership Governance

Partnerships are increasingly common and increasingly important to the Council, in order to deliver the corporate plan and respond to the Localism agenda. These partnerships take many forms. For example, formal arrangements such as strategic service delivery partnerships, statutory partnerships and looser, informal relationships with community groups or the 'third sector'. Although each of these partnerships is formed to generate beneficial outcomes they also carry different types of risks and governance can be problematic.

In addition, some of the Council's partnerships have been in place for a number of years and the 'health' and governance arrangements of these partnerships have not been systematically reviewed to ensure they continue to contribute effectively to the corporate priorities.

Therefore, the Council is to adopt a revised systematic and consistent approach to identifying its significant partnerships. Once the significant partnerships have been identified, a systematic review of the governance arrangements and the 'health' of each partnership will be carried out to ensure they continue to contribute to the corporate priorities and provide value for money. The findings of the reviews and the risks associated with these partnerships will then be reported to officers and Councillors with portfolio responsibilities.

Contract Management and Monitoring

The Council has historically had an inconsistent approach to its contract monitoring. New processes are being put in place to ensure that contracts can be monitored and reviewed on an on-going basis for value for money in the future.

Procurement

The Interim Head of Procurement had raised concerns over past tendering processes and the failure to follow the Council's Contract Procedure Rules. Following an independent review, these concerns were supported by the findings of Internal Audit who identified a number of cases of inconsistencies and ambiguities at various stages of the procurement processes. The recommendations arising from the audit review 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.

Savings Targets

While the Council's current and historical savings targets have been largely delivered, there are still a limited number of such targets that have not yet been and also some,

where proposals are yet to be developed. A failure to meet these targets will adversely impact upon the Council's ability to meet its objectives. Close monitoring of the situation continues at both senior officer and Councillor level.

Resilience Function (Emergency Planning and Business Continuity)

The Council has identified issues in its ability to respond fully to its responsibilities under the Civil Contingencies Act. The Cabinet has approved the creation of a new Resilience Team in 2013/14 to bring together the separate Emergency Planning and Business Continuity functions. This is to underpin the delivery of the new Major Incident Plan and suite of subsidiary plans. The Resilience Team will operate within new governance arrangements and report to a Board. The Board will oversee the delivery of the adopted project plan for Resilience that will be reviewed monthly by the Strategic Executive Board. Annual audits will also be conducted to validate progress against the project plan.

Equalities

The Council has identified issues in its ability to respond fully to its responsibilities in respect of equalities and consultation. An Equalities Project Board has been formed and approved an equalities work programme. This programme identifies ways of mainstreaming and promoting best equalities practice. Appropriate measures will be implemented during 2103/14.

2.3 In reaching our opinion, the following factors were taken into particular consideration:

- The need for management to plan appropriate and timely action to implement our and other assurance providers recommendations, in particular PwC's Annual Grant Certification Report and the Information Commissioner's latest observations.
- Key areas of significance, identified as a result of our audit work performed in year are detailed in section 4 of this report.

3. Compliance with the CIPFA Code of Practice



During 2012/13 we followed the 11 standards as laid out by CIPFA in their Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. From 1 April 2013, this document has been replaced by a new set of Public Sector Internal Audit Standards, which Audit Services will now follow.

4. Summary of work completed

A detailed written report and action plan is prepared and issued for every review. The responsible officer will be asked to respond to the report by completing and returning an

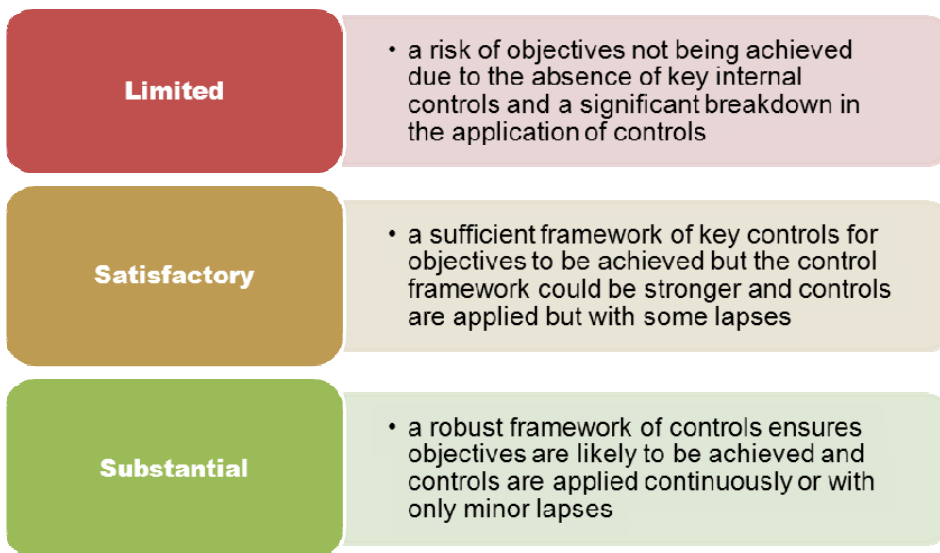
action plan. This response must show what actions have been taken or are planned in relation to each recommendation.

Year on year comparison

A total of 70 pieces of audit work were completed during the year, where an audit opinion has been provided. A summary of these audit opinions, with a comparison over previous years is given below.

Opinion	2012/13	2011/12	2010/11
Substantial (was Strong)	22	36	8
Satisfactory	42	62	50
Limited (was Weak)	6	7	28

Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:



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 Q1, Q2 & Q3 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
Northwood Park Primary School	Medium	-	-	10	10	10	Substantial
Coppice Secondary School	Medium	-	3	7	10	10	Satisfactory

Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
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
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
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

Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
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
Quarter 4							
Bushbury Hill Primary School	Medium	-	1	5	6	6	Satisfactory
Dunstall Hill Primary School	Medium	-	3	3	6	6	Satisfactory
Eastfield Primary School	Medium	-	3	2	5	5	Satisfactory
Spring Vale Primary School	Medium	-	-	4	4	4	Substantial
Merridale Primary School	Medium	-	6	9	15	15	Satisfactory
St Bartholomew’s CE Primary School	Medium	-	1	6	7	7	Satisfactory
Broadmeadow Nursery Special School	Medium	-	1	9	10	10	Satisfactory
Accountable Bodies	High	-	4	1	5	5	Satisfactory
Homecare System (CM2000)	High	1	4	-	5	5	Satisfactory
Personal Budgets	High	-	4	2	6	6	Satisfactory
Safer Wolverhampton Partnership	Medium	-	2	2	4	4	Satisfactory
Benefits Risk Based Verification Framework – Compliance Review	Medium	-	3	1	4	4	Satisfactory
Accounts Payable Managed Audit	High	-	-	-	-	-	Substantial

Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
Payroll Managed Audit	High	-	-	2	2	2	Satisfactory
Budgetary Control Managed Audit	High	-	-	-	-	-	Substantial
Housing Benefits Managed Audit	High	-	-	-	-	-	Substantial
General Ledger Managed Audit	High	-	-	2	2	2	Satisfactory
Housing Rents Managed Audit	High	-	1	-	1	1	Substantial
Sundry Debtors Managed Audit	High	-	1	-	1	1	Satisfactory
Local Taxes (Council Tax / NNDR) Managed Audit	High	-	-	-	-	-	Substantial
Treasury Management Managed Audit	High	-	1	-	1	1	Substantial
TR17 Teachers Pension Return Certification	N/A	-	-	-	-	-	Satisfactory
Adoption Allowances	Medium	-	3	2	5	5	Satisfactory
Non Purchase Order Payment Exemptions	Medium	-	-	-	-	-	N/A
Resilience Management	High	7	2	-	9	9	Limited
Corporate Information Governance Assurance Framework	High	5	-	-	5	5	Limited
Single Status Payroll Implementation	High	1	2	-	3	3	Substantial
Academy Conversion	High	-	3	5	8	8	Satisfactory
Offsite Data Back Up Arrangements	Medium	-	6	2	8	8	Satisfactory
Data Centre Management	Medium	-	3	1	4	4	Satisfactory
Pension Auto-Enrolment	Medium	3	3	-	6	6	Satisfactory
Use of Compromise Agreements	Medium	1	4	1	6	6	Satisfactory

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.

Key issues arising during the year

Q1, Q2 and Q3 issues have already been flagged to the Audit Committee during the year and are now summarised below, along with the key issues that arose during Q4.

In Quarter 1 we reported:

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.

In Quarter 2 we reported:

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.

In Quarter 3 we reported:

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.

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.

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.

New for Quarter 4:

Corporate Information Governance Assurance Framework

Our review identified five red development opportunities, the need to develop a clear Corporate Information Governance Management structure, strengthen and complete the Corporate Information Governance Policy framework, raise awareness and provide suitable training related to information governance requirements, develop and maintain information assurance controls and measures and develop a greater understanding of the risks posed by information and the effective use of information resources. Information governance issues also formed a key part of the issues raised in the Annual Governance Statement. The Council is aware of the work that needs to be undertaken in these areas and has put in place a whole range of activities in order to meet the challenge.

Resilience Management

A review of Resilience Management and Business Continuity Arrangements established that significant concerns remained in this area. We therefore concluded that there was limited assurance in this area that risks material to the Council had been addressed. Issues raised included the need for an annual assessment of the Council's position against the duties under the Civil Contingencies Act and that all aspects of the various plans needed developing, testing and approval. Once completed, the plans should then be reviewed annually and include refresher training for officers involved in delivering the plan. At the time of producing this report, we are in the process of agreeing appropriate responses to these recommendations with senior management.

Homecare System (CM2000)

Our audit of the CM2000 Homecare System, which facilitates the monitoring and payment of domiciliary care provision invoices, concluded that overall arrangements were satisfactory. However, one key issue was identified in relation to the lack of contingency arrangements in place to cover the absence of a key officer. It was felt that in the absence of formal contingency arrangements, there was a risk that the payment of invoices may be held up and consequently, care provision for vulnerable clients may be disrupted. Senior management agreed to reconsider contingency arrangements.

Single Status Payroll Implementation

An audit review concluded that the controls established for the Council's Single Status Payroll Implementation Project provided substantial assurance that risks material to the achievement of the Council's objectives were adequately managed and controlled. One local red recommendation was made regarding the need for all data supplied with regard to hours and weeks worked by the Schools HR team to be reviewed in order to ensure that any discrepancies were identified and corrected. This and two other less significant recommendations have been agreed with management for prompt implementation.

Pension Auto Enrolment

An audit review of the Pensions Auto Enrolment project, identified the following:

- An approved policy needed developing as to how the Council administer individuals paid via the Council's creditors, and classified as a 'worker'. This policy should cover the inclusion/exclusion criteria used, how such individuals will be paid, contracts to be used, auto-enrolment requirements, and the cost implications associated with this.
- In order to avoid unnecessary work, clarity should be sought from the Pensions Regulator regarding the Council's responsibility to automatic enrol individuals paid via the Council's Creditors system.
- The communications plan needed to be reviewed to ensure all statutory communications have been identified and included in the plan.

At the time of producing this report, we are in the process of agreeing appropriate responses to these recommendations with senior management.

Use of Compromise Agreements

Our review of the use of compromise agreements has concluded that overall there is satisfactory assurance that risks material to the Council are adequately controlled. However, one red recommendation was made as detailed management information could not be produced from the payroll as various payment codes were being used for the settlement of compromise agreements.

Managed Audits

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

The programme of Managed Audit testing undertaken during 2012/13 has been completed to the satisfaction of PwC. Of the ten Managed Audits undertaken, we concluded that there was Substantial Assurance in seven and Satisfactory Assurance in three.

Information governance

We have contributed to the Council's continued efforts to improve its information governance framework, through the work of a specialist Senior Auditor who works 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 will be with the new Information Governance Board, in order to address wider corporate information governance issues. It is intended that when the relevant policies and procedures have been introduced, compliance, guidance and support will be provided through a programme of audit exercises.

School Audits

Our annual school audit review programme focuses upon the adequacy and effectiveness of LA maintained schools' governance, risk management and control processes. Schools completed during the year were assessed as having either satisfactory (18) or substantial (8) levels of assurance. Over the year we found the following recurring issues:

- Schools were failing to obtain declarations of business interests from all staff which is now a requirement within the Scheme for Financing Schools.
- Schools had not established a register of gifts and hospitality which is now a requirement within the Scheme for Financing Schools.
- Purchase orders continue to be raised after receipt of goods and services.
- Schools were failing to review Charging and Remissions Policies and annually review and approve all charges levied.
- Governing Bodies were not always approving expenditure in excess of Headteachers' delegated limits.
- Schools were not always undertaking checks on vehicle details and updating details on the corporate database. Further, there was no evidence that staff had the required business use insurance when performing official school duties.
- Risk assessments were generally not being reviewed and approvals for school trips were not always evident.
- Checks on income bankings were not being completed, or were being undertaken by the same person responsible for the collection, recording and banking of income.
- Income arrears were not being monitored by Governing Bodies and schools had not established suitable arrears policies.
- Inventory records were not being promptly completed or checked on an annual basis.

Savings/reducing potential fraud and error – our contribution

We review the order processing and creditor payments system for potential duplicate payments on an on-going basis. Results of this work during 2012/13 were as follows:

- 218 duplicate payments identified and stopped prior to payment, with a total value of £114,283.
- 76 payments to the value of £45,647 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, 619 are in progress or have been investigated with 28 errors and 43 cases of fraud identified, resulting in savings of £370,781 being recovered. These overpayments largely relate to benefits paid to students but also include overpayments made to Council (WCC or other) employees (£43K) and sundry other cases.

Finally, we undertake the investigation work on Single Person Discount (SPD) referrals via NFI. Savings relating to this work are post-April 2013 and will therefore be reported in Q1 2013/14.

Audit development

The Council's external auditor, PwC were commissioned in to undertake a review of the effectiveness of the internal audit function and the role of the Audit Committee, which was reported upon in 2011. In 2012 the Audit Committee requested that PwC undertake a follow up report in order to give the Committee assurance that action had been taken to address their recommendations. PwC revisited the Council's Internal Audit Section in December 2012 in order to follow up the recommendations from their 2011 report and they were able to report that 15 of the 16 recommendations they originally made had been implemented. The only outstanding recommendation related to the need to prioritise and implement the actions identified through the CIPFA 'Managing the Risk of Fraud – Red Book 2' self-assessment, which has now been completed.

Audit and assurance effectiveness measures

Our performance against the following Audit and Assurance effectiveness measures, that were prepared around the successful delivery of the audit service, is as follows:

Audit Plan measures	
Audit reports identifying suggested areas for action, issued to auditees within two weeks of completion of fieldwork.	Approximately 75% of audit reports were issued within two weeks of the completion of audit fieldwork.
Number of audits where time taken to complete assignment is more than 10% longer than planned.	Approximately 50% of reviews took 10% or more longer than anticipated, with the other 50% completed either on target or under. The majority of these usually arose from unforeseen issues arising during the individual reviews, and with time spent on embedding the new systems thinking style approach to key areas of work. However, ultimately, the vast majority of the Audit Plan was delivered within the original planned budget.
Delivery of at least 80% of the audit plan, and an opinion which provides suitable assurance on the overall governance, risk management and control environment.	Yes – while there were a number of changes during the year as a result of emerging issues and the changing risk profile of the Council, as indicated above, the vast majority of the Audit Plan was delivered.
Risk Based Audit Plan produced and available to the Council in advance of the year to which it relates.	Yes – the Audit Plan was approved before the year commenced.
Recommendations measures	
90% of recommendations accepted by Council management.	We are pleased to report that all of our recommendations made in year, were accepted by Council management.
Number of key recommendations followed up, implemented by the Council by the target date.	Approximately 90% of previous key recommendations followed up had been implemented within the agreed date. Where they had not, this was often as a result of a change in circumstance and where appropriate the date was extended and the recommendation re-iterated.
Relationships measures	
Positive feedback from completed client satisfaction surveys.	Yes, the vast majority of feedback was of a positive nature, and is available for review if required.
External Audit measure	
Full reliance placed on internal audit work by External Audit.	Yes, the External Auditors commented favourably on work completed by Internal Audit in support of the Managed Audit arrangement.

Counter fraud and fraud investigations

We have continued to investigate all allegations of suspected fraudulent activity, throughout the year, and where appropriate whistleblowing allegations. Details of these have been presented to, and monitored through the work of the Audit Committee's Investigations Sub-Committee.

We have also introduced a wide range of counter fraud initiatives during the year, including a Council newsletter 'The FRAUDitor', Fraud seminars, fraud surgeries, a refreshed website and various self-assessments against recognised counter fraud best practice. Again, further details of these have been reported through the Audit Committee's Investigations Sub-Committee.

FutureWorks programme – the assurance framework and our role

We have agreed, and put in place, an internal audit assurance framework for the current FutureWorks 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 procurement phase of the programme and this has now been completed. As at 31 March 2013, the following combined assurances from internal and external audit had been given against the programme:

Programme area	External and independent assurance obtained to date (i.e. the third line of defence)
<p>Project Governance</p> <p>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</p> <p>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>Internal Audit was able to observe the appropriate conduct of the procurement process up to the appointment of the successful bidder. This included access to dialogue sessions with both shortlisted contractors. Observations and recommendations were fed back to key staff and the Board as appropriate.</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>

As the project moves into the delivery phase, it is intended that key stakeholders will get together to develop the assurance framework further. In the meantime, Audit staff are actively participating in workshops focusing on the high level design of key work streams.

Single Status Programme – the assurance framework and our role

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



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 March 2013 we had completed extensive assurance work in respect of the Payroll Implementation process and transitional pay arrangements. It is proposed that a review of the Council's appeals process will be captured under the 2103/14 audit plan. 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.

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. In addition to representation on the Single Status Board, we also have a presence on the Pay Strategy Board and the Equality Governance panel. The purpose of both these groups is to ensure on-going compliance with the collective agreement and to prevent any potential pay inequalities arising from the appeals process.

Equal Pay

We have also played an active part 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 – the assurance framework and our role

Similar to the above key programmes, we are in discussions with the Head of Procurement 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 Procurement, we have completed an audit review of Class III and IV Tendering Procedures. Any proposed changes to the Constitution, as result of these reviews, will be reported to the Constitution Review Group for consideration.