



Audit Committee

23 September 2013

Report Title	Internal Audit Update – Quarter 1	
Classification	Public	
Cabinet Member with Lead Responsibility	Councillor Andrew Johnson Cabinet Member for Resources	
Accountable Strategic Director	Keith Ireland, Delivery	
Originating service	Delivery/Audit	
Accountable officer(s)	Peter Farrow	Head of Audit
	Tel	01902 55(4460)
	Email	peter.farrow@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

1. The contents of the latest Internal Audit Update as at the end of quarter 1.

1.0 Purpose

- 1.1 The purpose of this report is to update Committee members on the progress made against the 2013/14 Audit Plan and to provide information on recent work that has been completed.

2.0 Background

- 2.1 The Internal Audit Update Report as at 30 June 2013 (quarter 1) contains details of the matters arising from audit work undertaken so far this year. The information included in the report will feed into, and inform the overall opinion in our Annual Internal Audit Report issued at the year end. It also updates Committee members on various other activities associated with the internal audit service.

3.0 Progress, options, discussion, etc.

- 3.1 Quarterly internal audit update reports will continue to be presented to the Committee throughout the year.

4.0 Financial implications

- 4.1 The continued review of order processing and creditor payments has identified duplicate payments totalling £36,000. Of this, £34,000 was actually stopped prior to payment and £2,000 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 £2,000. These combined actions have either prevented or recovered a total expenditure of £38,000. [GE/10092013/Z]

5.0 Legal implications

- 5.1 There are no legal implications arising from this report. [FD/11092013/A]

6.0 Equalities implications

- 6.1 There are no equalities implications arising from this report.

7.0 Environmental implications

- 7.1 There are no environmental implications arising from this report.

8.0 Human resources implications

- 8.1 There are no human resources implications arising from this report.

9.0 Schedule of background papers

- 9.1 Audit Services – Strategy for Internal Audit 2013/14 – 2015/16

Wolverhampton

City Council



Internal Audit Progress Report – Quarter 1 Audit Committee: 23 September 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 2013/14 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:

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

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	
Fallings Park Primary School	Medium	0	2	13	15	15	Satisfactory
Eastfield Nursery School	Medium	0	4	6	10	10	Satisfactory
Grove Primary School	Medium	0	4	6	10	10	Satisfactory
FutureWorks Programme – High Level Design Phase Review	Medium	0	3	0	3	3	Satisfactory

There were a number of other reviews underway as at 30 June 2013, and these will be reported back in later update reports.

Year on year comparison

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

Opinion	2013/14 (Quarter 1)	2012/13	2011/12
Substantial	0	22	36
Satisfactory	4	44	62
Limited	0	6	7

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

So far in 2013/14 we have not had to issue any audit reports where 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.

Other areas of potential interest to the Audit Committee

FutureWorks Programme High Level Design Phase Review

Our review of the High Level Design Phase of the FutureWorks Programme concluded that there was satisfactory assurance that risks material to the successful delivery of the project were being effectively managed and controlled. The main issues arising from the review were as follows:

- Attendance at a number of the workshops was relatively poor, with some potentially key stakeholders not represented. Consequences of this lack of attendance were not considered critical at this time as issues which could not be resolved are logged and carried forward into the Detailed Design phase. That said, there is clearly a risk that any delays in the identification and resolution of issues will increase pressures later in the project.
- In some instances, documentation was not sent out until very close to the workshop date, which reduces the chances of attendees preparing properly to maximise the effectiveness of the process.
- Sign off of the P2P High Level Design document was delayed as a result of Contract Accounting and ‘Due North’ workshops being held late. Final sign off of the P2P HLD document occurred on 24 July 2013.

Potentially significant areas of concern which are known and have been logged as issues to resolve during the Detailed Design phase include the following:

- The treatment of separate (and future) clients within Agresso, namely Wolverhampton Homes/WMPF. Any delay in resolving this issue will have an impact and delay on future system design. It is understood however, that a decision on this matter is due shortly and will be raised with the Programme Board.

- Issues regarding schools generally, although it is understood that separate workshops are being held/planned.
- Training for budget managers both in terms of basic budget and IT training (where applicable) and specific Agresso based requirements. The Programme Director has indicated that the issue of training should actually be viewed in the context of the FuturePeople programme and a training strategy for FutureWorks will be developed to take account of this.
- Currently established delegations and authorisation levels, including those within the Constitution, will need to be reviewed to ensure that they are not in conflict with the required optimal configuration of Agresso. It is understood that this will be addressed during the Detailed Design phase.

We also identified the following examples of good practice in the organisation, conduct and outcome of the High Level Design process:

- Workshops were well run and at a good pace. Any issues arising were logged for future resolution rather than allowing them to derail the substantive business of the workshop.
- Attendees generally seemed to accept the concept of the 'vanilla solution' (i.e. the principle that the standard Agresso solution will be used as far as possible, with amendments kept to an absolute minimum) and the need for established processes to change where possible.
- Output from the workshops was produced quickly and reflected the actual discussions. Importantly, all potential issues were accurately logged.
- High Level Design documents were, in most cases, promptly signed off by the system owners.

Managed Audits

Managed Audits are the work we do on the Authority's key financial systems and incorporate the requirements of the External Auditors (PwC), in order that they can place reliance on our work and thereby reduce their own year-end testing accordingly. All 2012/13 Managed Audits work was completed to the satisfaction of PwC and in all cases satisfactory or substantial assurance was provided. The 2013/14 programme of Managed Audits is to commence shortly.

Savings

We monitor actual and potential savings identified during the course of our audit and other associated assurance work undertaken across the Council, and we continue to review the order processing and creditor payments system for potential duplicate payments. The status of this work as at 30 June 2013 was as follows:

- 10 duplicate payments identified and stopped prior to payment.
- Total value of duplicate payments £36,133. This equates to approximately 0.03% of the total Council expenditure in the period.
- 5 payments to the value of £1,879 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, 68 are in progress or have been investigated with 2 errors identified, resulting in savings of £1,756 being recovered. This equates to approximately 0.1% of benefits paid between 1 April and 30 June 2013.

Finally, we undertake the investigation work on Single Person Discount (SPD) referrals via NFI and a total of 1,099 cases have been investigated. 67 customers were found to be over claiming SPD, resulting in potential savings of £54,537 being recovered. This equates to approximately 0.2% of the total number of customers claiming SPD.

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.

FutureWorks – 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 programme and a further session is planned to determine precise assurance activities required. As at 30 June 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 (the third line of defence)
Reported previously:	
<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.</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>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 How the risks associated with the project are being managed and the role of the Audit Committee in reviewing these.</p>	<p>In September 2012 the Audit Committee 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> <p>In July 2013 the Audit Committee received the following report:</p> <p>PwC External Audit Update – who stated that they had carried out an audit ‘health check’ of the Programme in March and April 2013. The scope of this review was to consider the Council’s programme management controls as at 30 March 2013. Their work specifically focused on the overall programme structure, the Council’s assurance framework and controls over the procurement phase of the programme. They reviewed key project documentation and discussed progress with the Programme Team. They concluded that as at April 2013 the Council had good programme and risk management arrangements in place for the procurement phase of the Programme but that more needed to be done to clarify and formalise its future assurance needs for the delivery phase.</p>

Reported for the first time:	
Implementation Review How the programme is progressing.	Internal Audit High Level Design Review – June 2013 gave satisfactory assurance on the high level design documents for key work streams. A limited number of issues were raised and these are reported separately (above) in this report.

Audit Services staff, are continuing to actively participate in the FutureWorks workshops focusing on the detailed design of key work streams.

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

As at 30 June 2013 Audit Services had completed extensive assurance work in respect of Payroll Implementation which was the final phase of the Single Status project. Following the implementation of Single Status on-going assurance work has taken place in respect of the new transitional arrangements in order to monitor compliance with the collective agreement. It is proposed that a review of the Council’s appeals process will be captured under the 2013/14 audit plan. Throughout the Single Status process Audit Services have been embedded in the programme and has had presence on Single Status Board. 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.

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.

There are currently no outstanding red or amber issues relating to our work on the Single Status project.

Equal Pay

We have 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 and have presence at equal pay project team meetings.

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.

Introduction of Procurement Code

We are in discussions with the Head of Procurement in respect of providing assurance regarding the implementation of the Procurement Code. Initially this will include a review of the proposed Procurement Code and implementation arrangements. Following implementation of the Code we will review governance arrangements relating to the embedding of the Code within the organisation, including the establishment and operation of the Procurement Board.