



Audit Committee

16 December 2013

Report title	Internal Audit Update – Quarter 2	
Cabinet member with lead responsibility	Councillor Paul Sweet Governance and Performance	
Accountable director	Keith Ireland, Delivery	
Originating service	Audit	
Accountable employee(s)	Peter Farrow Tel Email	Head of Audit 01902 554460 peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable	

Recommendations for noting:

The Committee is asked to note:

1. The contents of the latest Internal Audit Update as at the end of quarter 2.

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 September 2013 (quarter 2) contains details of the matters arising from audit work undertaken so far this year. The information included in the report will feed into, and inform 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 £174,000. Of this, £137,000 was actually stopped prior to payment and £37,000 has been recovered from suppliers. In addition to this the processing of benefit matches reported through the National Fraud Initiative has resulted in the recovery of a further £2,000. These combined actions have either prevented or recovered a total expenditure of £176,000. (CN/06122013/C)

5.0 Legal implications

- 5.1 There are no legal implications arising from this report (JH281113/QC).

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 2 Audit Committee: 16 December 2013

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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
Claregate Primary School	Medium	0	0	2	2	2	Substantial
St Mary's Catholic Primary	Medium	0	5	8	13	13	Satisfactory
Green Park Special School	Medium	0	2	8	10	10	Satisfactory
Duke Street Residential Bungalows	Medium	0	0	11	11	11	Satisfactory
Villiers Primary School	Medium	0	1	2	3	3	Substantial
Merry Hill House	Medium	0	0	9	9	9	Satisfactory
St Alban's CE Primary School	Medium	0	5	7	12	12	Satisfactory
Lanesfield Primary School	Medium	0	3	9	12	12	Satisfactory
Goldthorne Park Primary School	Medium	0	1	7	8	8	Satisfactory
St Stephen's CE Primary School	Medium	0	6	6	12	12	Satisfactory
Bilston Nursery School	Medium	0	1	12	13	13	Satisfactory
St Anthony's Catholic Primary School	Medium	0	1	7	8	7 *	Satisfactory

Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
Ekta Day Centre	Medium	0	0	7	7	7	Satisfactory
D'Eyncourt Primary School	Medium	0	0	6	6	6	Substantial
Black Country Pathways to Enterprise Project	Medium	0	2	0	2	2	Satisfactory
i54 Payment Processes	High	2	1	1	4	4	Limited
Diploma Exemplar Building	High						Limited
Play Services	Medium	0	0	9	9	9	Satisfactory
Civic Halls Safe Check	Low	0	1	1	2	2	Satisfactory
Carbon Reduction Commitment (CRC) Annual Assurance Review	High	0	2	2	4	4	Substantial
Senior Officers Emoluments	High	0	0	0	0	0	N/A **
Senior Officers Salaries >£50K Check	High	0	0	0	0	0	N/A **
Payroll Contribution Statements for WMPF	High	0	1	0	1	1	N/A **
CRC Assurance Statement	High	0	0	0	0	0	N/A **
Section 106 Agreements – Monitoring Arrangements	Medium	1	3	0	4	4	Satisfactory
Translation and Interpretation Budget	Medium	0	1	2	3	3	Satisfactory
Civic Centre Car Park Stamp Review	Low	0	0	7	7	7	Satisfactory
FutureWorks Detailed Design Phase	High	0	4	0	4	4	Satisfactory
Corpus Christi Catholic Primary School	Medium	0	0	4	4	2 *	Substantial
Vine Island – Contract Monitoring	Medium	0	1	0	1	1	Satisfactory

Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
Strategic Construction Partnership	High	0	0	0	0	0	Substantial

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

* Relatively minor recommendations not immediately agreed by schools but work on-going to identify acceptable solutions where necessary. Failure to agree recommendations did not affect the overall levels of assurance at the schools concerned.

** Certification only – therefore, no audit opinion provided.

Year on year comparison

31 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 2)	2012/13	2011/12
Substantial	6	22	36
Satisfactory	23	44	62
Limited	2	6	7

Follow up of previous recommendations

The majority of follow up work is now being addressed appropriately by managers and once again, so far in the current year, 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

i54 Payment Processes

An audit review of the i54 Payment Processes issued in July 2013 provided only limited assurance.

The i54 contract is a joint venture between Staffordshire County Council (SCC) and Wolverhampton City Council (WCC), with a funding agreement setting out project expenditure and funding arrangements between both parties.

Based on our audit work we concluded that although payment claims and variations were subject to approved payment procedures, due to the lack of documentation supplied by SCC, claims have only been able to be approved on the basis of checks to supporting invoices and more recently the introduction of due diligence checks by a consultant principal engineer.

Further, full access to documentation including valuation certificates has yet to be granted to the consultant principal engineer by SCC. Therefore, only limited assurance could be provided that the council has paid for those works / services actually undertaken / received to date, and that payments made have been in accordance with the contract agreement.

The draft financial payment protocol which is now understood to have been finalised and is ready to be signed off, should provide an appropriate mechanism for the receipt, review and authorisation of payments and variations. Further, the protocol should enable WCC access to documentation which to date has not been forthcoming from SCC.

Following the signing, implementation and embedding of the financial payment protocol, we will undertake further checks on the payment process, and compliance with the protocol, later in the year.

All of the recommendations arising from our audit were agreed with senior management for implementation, and these will be followed up where appropriate.

Diploma Exemplar Building Contract

A contract audit review of the diploma exemplar building contract, covering the tendering and current contract stages, issued in August 2013 provided only limited assurance that risks were being adequately managed and controlled.

The main areas of concern arising from our review were as follows:

- The contract was signed by the contractor on 21 November 2012, although works commenced on site on 4 November 2010. A complete audit trail of events was not available and it was therefore not possible to identify the reasons for the delays during the signing process, or to establish where responsibilities for failings in the process lie. However, factors which contributed to the late signing of the contract include an unrealistic timescale for the completion of contract documentation and signature following notification to Legal Services by Property Services officers, and the contractor was identified as having referred contract documentation to officers within Legal Services and Property Services, rather than to a single point of contact.
- There was a key failure by Property Services officers in allowing the contractor to start on site without a signed contract being in place.
- No reporting mechanism was in place for instances where contract works were due to start on site, but contract documentation had not been signed.

A review of a sample of six contracts undertaken since October 2012 confirmed that the contract documentation was executed prior to commencement of works on site in each instance.

All recommendations arising from the audit review were agreed with senior management for implementation, and again will be followed up where appropriate.

Other areas of potential interest to the Audit Committee

FutureWorks Detailed Design Phase Review

Our review of the detailed 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 our review were as follows:

- Whilst overall attendance at workshops was considered good, with in excess of 300 staff participating across the high level and detailed design phases of the programme, concern remained that attendance was inconsistent across work streams / workshops. However, it was acknowledged that considerable effort was made to ensure attendance at workshops was appropriate. Risks associated with any of these workshops being poorly attended are mitigated to a large extent by the fact that the final solution is essentially 'vanilla' (i.e. not customised from the standard Agilisys / Agresso configuration) which has been successfully implemented in a number of councils. Nevertheless, it is considered imperative that training of all affected staff is addressed in sufficient time to allow operational issues to be resolved prior to implementation wherever possible.
- Final detailed design documents were signed off by the Assistant Director – Finance on 30 September 2013. As would be expected, the documents were subject to considerable change right up to the point of sign off and we subsequently reviewed the final documents

to ensure that all issues raised had been properly addressed. The following issues were raised:

1. Some sections of documents contained reference to issues for resolution during the build phase. This included instances where exemptions or exceptions to standard processes had yet to be finalised. It is accepted that some limited slippage of decisions into the build stage was likely given the very tight timescales involved.
 2. Documents contained references to manual processes which feed into the system which were considered outside the scope of the detailed design phase of the programme. Such processes should not affect the solution build and on the basis that they already operate in the current systems, they should not introduce any additional risk.
 3. Certain issues raised by us during the process had not been formally closed off, although none are considered serious enough to compromise the programme.
- Whilst delegation levels, limits and tolerances associated with the detailed design appear to be soundly based in principle, their actual operation will remain unclear until the system goes live. The appropriateness of delegations, limits and tolerances should therefore be specifically reviewed in the months following implementation and changes made where necessary.
 - Supplier engagement in relation to the P2P work stream remains at a relatively early stage. Whilst Agilisys staff have indicated that based on their experience of similar exercises, timescales should be sufficient, there remains a risk that implementation could be compromised if supplier engagement proves difficult.

All recommendations arising from the audit review were agreed with senior programme management for implementation.

Managed Audits

Managed audits are the work we do on the council'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 has now commenced and will be completed in the coming months.

Savings

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

- 44 duplicate payments identified and stopped prior to payment.
- Total value of duplicate payments £174,583.
- 13 payments to the value of £37,241 had been recovered from suppliers.

In addition, a number of benefit matches reported via the National Fraud Initiative (NFI) have been processed. To date, 115 have been investigated 56 are in progress with 2 errors identified, resulting in savings of £1,756 being recovered.

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 the discount, resulting in potential savings of £54,537.

It should continue to 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 council.

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

September 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</p>

	<p>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>
<p>Implementation Review How the programme is progressing.</p>	<p>Internal audit high level design review – June 2013 gave satisfactory assurance on the high level design documents for key work streams.</p>
<p>Reported for the first time:</p>	
	<p>Internal audit detailed design phase review – November 2013 provided satisfactory assurance on the development of the detailed design documents. Further details of this report are set out earlier in this report.</p>

We are continuing to support the programme through participation in additional workshops and the development of the testing strategy. Further assurance work is planned in relation to data migration and testing.

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:



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 September 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 we have been embedded in the programme and have had a presence on the single status and pay strategy board. The purpose of these groups is to ensure on-going compliance with the collective agreement and to prevent any potential pay inequalities arising from the appeals process.

It is proposed that the single status board will be resurrected in January 2014 to explore ways of assisting employees with the loss of allowances on 1 April 2014. We will continue to be a member of this group.

In addition to the above areas we have also been actively involved in both the pensions auto-enrolment and real time information (RTI) projects, which were subsumed under the single status programme. We have been embedded into the project team and have audited both processes.

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 new Procurement Procedures

We are in discussions with the Head of Procurement in respect of providing assurance regarding the implementation of the new procurement procedures. Initially this has included a review of the new procedures and the implementation arrangements. Following their implementation we will review governance arrangements relating to their embedment across the council, including the establishment and operation of the procurement board.

In addition, at the request of the head of procurement we are currently undertaking an audit of the property services procurement processes prior to responsibility for this area of work transferring to corporate procurement.