



# Audit Committee

10 March 2014

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

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## Recommendations for noting:

The Committee is asked to note:

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

## **1.0 Purpose**

- 1.1 The purpose of this report is to update the Committee 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 31 December 2013 (quarter three) 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 the Committee 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 £221,000. Of this, £167,000 was actually stopped prior to payment, £38,000 has been recovered from suppliers and £16,000 is in the process of being recovered. In addition to this the processing of benefit matches reported through the National Fraud Initiative (NFI) has resulted in the recovery of £86,000. Finally, a further potential saving of £95,000 has been identified in relation to single person discount referrals from the NFI and an additional £13,000 recovered in relation to Council Tax Rising 18's. The latter relates to households no longer eligible for single person discount as young people reach 18 years of age. [GE/26022014/H]

## **5.0 Legal implications**

- 5.1 There are no legal implications arising from the recommendations in this report. (JH/24022014/R)

## **6.0 Equalities implications**

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

## **7.0 Environmental implications**

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

**8.0 Human resources implications**

8.1 There are no human resources implications arising from the recommendations in this report.

**9.0 Corporate landlord implications**

9.1 There are no corporate landlord implications arising from the recommendations in this report.

**10.0 Schedule of background papers - None**

# Wolverhampton

## City Council



### **Internal Audit Progress Report – Quarter 3**

### **Audit Committee: 10 March 2014**

#### **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 Councillors 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:

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

## 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	
<b>Reported previously:</b>							
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	2	1	1	4	4	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
Strategic Construction Partnership	High	0	0	0	0	0	Substantial

Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
<b>Reported for the first time:</b>							
Springdale Infant School	Medium	0	0	9	9	9	Satisfactory
Church Street Outreach Services	Medium	0	1	6	7	7	Satisfactory
Windmill Lane Children’s Short Break Respite Centre	Medium	0	13	4	17	17	Limited
Ashmore Park Nursery School	Medium	0	1	3	4	4	Substantial
West Park Primary School	Medium	0	0	3	3	3	Substantial
Christ Church CE Infant School	Medium	0	2	3	5	5	Satisfactory
Whitgreave Infant School	Medium	0	5	7	12	12	Satisfactory
St Patrick’s Catholic Primary School	Medium	0	0	15	15	15	Satisfactory
Cash Receipting and Banking Arrangements (Regeneration)	Medium	0	1	3	4	4	Substantial
Compliance with Birmingham City Council Agency Contract	Medium	2	3	0	5	5	Limited
Street Lighting – Repair and Maintenance	Low	0	2	0	2	2	Satisfactory
Employment Opportunities	Medium	0	3	14	17	17	Satisfactory
City Show Cash Collection Procedures	Low	0	2	3	5	5	Satisfactory
Bert Williams Leisure Centre Catering Income	Low	0	0	4	4	4	Satisfactory
TR17 Pensions Return Certification	High	0	0	0	0	0	Satisfactory
Capital Expenditure Managed Audit	High	0	1	0	1	1	Satisfactory
Contaminated Land Programme Grant Certification	Medium	0	0	0	0	0	N/A **



Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
FutureWorks - Data Migration and Reconciliation	High	5	0	0	5	5	Limited
Two additional pieces of work have also been completed as follows:							
Under Recovery of Property Services Recharges	NA	3	0	0	3	3	NA
Education and Enterprise Overspend	NA	6	7	0	13	13	NA

There were a number of other reviews underway as at 31 December 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

48 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 3)	2012/13	2011/12
Substantial	9	22	36
Satisfactory	34	44	62
Limited	5	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

### FutureWorks - Data Migration and Reconciliation

As part of our on-going assurance work relating to the FutureWorks Programme, an audit review of the migration and reconciliation of data into Agresso was undertaken in respect of the January 2014 data upload. As a result of our work, we were only able to provide limited assurance in respect of the data migration and reconciliation process, as a significant proportion of reconciliations failed or could not be completed due to a lack of data.

Five 'red' recommendations were made as a result of our work, covering the following issues:

- Future data uploads being planned to allow sufficient time for problems to be resolved before cutover.
- Communications being improved to ensure that all appropriate officers are available to support future data migrations.
- Wolverhampton Homes and City of Wolverhampton Academy Trust data being uploaded into Agresso and testing commenced.
- Identified issues being logged on a timely basis onto the Bugzilla System (the Agilisys incident recording tool).
- Realistic arrangements being put in place to resolve significant issues identified in relation to employee work schedules.

All recommendations have been agreed with FutureWorks management and the FutureWorks Board.

### Compliance with the Birmingham City Council Agency Contract

Following an audit to assess compliance with the Birmingham City Council framework contract for the provision of temporary agency workers, we were only able to provide limited assurance in respect of arrangements adopted. Two red and three amber recommendations were made in respect of the following issues:

- Roles and responsibilities in relation to contract management had not been established.
- Adequate arrangements for monitoring compliance with the framework were not in place.

- Details of the framework and procedures for its use had not been adequately communicated to all relevant staff.
- The agreed process for appointing agency staff was not being complied with. As a result, assurance that the necessary approvals to appoint workers had been obtained could not be provided.
- Services operating outside of the framework had not been subject to the necessary approvals in all instances.

All recommendations were agreed with management for implementation.

### **Windmill Lane Children's Short Break Respite Centre**

An audit of the Windmill Lane Children's Short Break Respite Centre was undertaken at the request of the Interim Resource Manager. Our work identified a significant number of issues related to basic financial controls, including issues relating to payroll, attendance, purchasing, petty cash, income and grant administration. As a result, we were only able to provide limited assurance in respect of the Centre's financial administration.

### **Under Recovery of Property Services Recharges and Education and Enterprise Overspend**

The outcomes of these two reports are being brought to the attention of the Audit Committee in separate reports due to the nature of the issues arising, in particular around the financial implications that the Council experienced as part of the 2012/13 accounts closedown process.

### **Other areas of potential interest to the Audit Committee**

#### **Appraisals review update**

The new corporate performance appraisal process was introduced in April 2013 and our first appraisal review is now underway. We have scoped the review as follows:

- Identify the number of appraisals expected overall / by each directorate.
- Identify the number of appraisals completed at a certain date / over a certain time period by each directorate.
- Produce a breakdown of the number of completed appraisals by directorate and service area.
- Test compliance with the corporate policy / timescales throughout.
- Select a sample of performance appraisals undertaken across directorates to assess correct completion / compliance with the corporate policy.
- Select a sample of service areas across directorates where performance appraisals have not been completed to establish if any progress has been made / appraisals have been completed using old EPRS criteria etc.
- Make recommendations for improving the embedding of performance appraisal across the Council.

We have started to examine the corporate database recording the number of completed appraisals by directorate. In addition, 10 questionnaires have been issued to heads of service across each directorate who have not completed any appraisals for their staff, in order to determine the reasons why, and 17 to heads of service across each directorate who have completed appraisals to assess their understanding of the scheme, if any additional support was accessed and any problems encountered. Whilst a return date of 7 February 2014 was set, only 5 (50%) have been returned by heads of service who have not completed appraisals to date, and 11 (65%) from heads of service who had completed appraisals. Reminders have since been issued. Following completion of our analysis, we estimate that our final report will

be ready by mid-March. Further details on the outcome of our review will be reported back to the next Audit Committee.

### **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 31 December 2013 was as follows:

- 63 duplicate payments identified and stopped prior to payment.
- Total value of duplicate payments £221,000.
- 16 payments to the value of £37,985 had been recovered from suppliers.
- 9 payments to the value of £16,088 are being recovered from suppliers

In addition, a number of benefit matches reported via the National Fraud Initiative (NFI) have been processed. To date, 176 have been investigated 33 are in progress with 19 cases of fraud and error identified, resulting in savings of £85,992 being recovered.

Finally, we undertake the investigation work on single person discount (SPD) referrals via NFI and a total of 2,013 cases have been investigated. 128 customers were found to be over claiming the discount, resulting in potential savings of £95,063. Council Tax Rising 18's are also investigated via NFI and a total of 333 cases have been investigated with 2 frauds and 49 errors identified, resulting in savings of £12,878 being recovered.

### **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.

As at 31 December 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:	
<b>Project Governance</b> The governance and reporting structure and the decision making process.	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.
<b>Project Management</b> 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.	PwC health check – September 2012 concluded that the programme has robust project and risk management arrangements in place.  Internal audit position statement – September 2012 gave substantial assurance on the project management arrangements.

<p><b>Procurement methodology</b> 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><b>Tender evaluation and appointment process</b> 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><b>Risk Management</b> How the risks associated with the project are being managed and the role of the Audit Committee in reviewing these.</p>	<p><b>In September 2012 the Audit Committee received the following reports:</b></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><b>In July 2013 the Audit Committee received the following report:</b></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><b>Implementation Review</b> How the programme is progressing.</p>	<p><b>In September 2013 the Audit Committee received details of the following:</b> Internal audit high level design review – June 2013 gave satisfactory assurance on the high level design documents for key work streams.</p>
	<p><b>In December 2013 the Audit Committee received details of the following:</b> Internal audit detailed design phase review – November 2013 provided satisfactory assurance on the development of the detailed design documents.</p>
<p>Reported for the first time:</p>	
	<p>PwC ‘FutureWorks Programme stage gate review – Testing phase’ in January 2014 - this concluded that: “The programme has a strong and committed team focussed on delivering the system by 1 April 2014. As with many large programmes of this nature, the team faces a number of challenges most of which have mitigations in place. We have not raised any high priority areas.” An agreed action plan has been produced in response to the PwC report and arrangements are in place for internal audit to monitor progress against this, in conjunction with programme management and Agilisys.</p> <p>An Internal Audit review focussing on the discreet area of data migration and reconciliation procedures associated with the January data upload identified a number of issues and therefore could provide only limited assurance regarding this particular process - further details are set out earlier in this report, and recommendations to remedy this have been accepted.</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 31 December 2013 we 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. We have been actively involved in the Single Status appeals process and currently have representation on the Equality and Governance panel. 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.

The Single Status Board was resurrected with effect from 15 January 2014 and meets fortnightly to explore ways of assisting employees with the loss of allowances on 1 April 2014. We 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 the successful implementation of both projects. 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 assurance work has been undertaken based on 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 at the end of March 2014 to assess whether previous recommendations have been implemented and review the system for managing future claims.

### **Introduction of new Procurement Procedures**

A review was undertaken of the draft Procurement Code in September 2013 which has now been ratified by the Council and implemented. The review identified that the Procurement Code largely addresses compliance with relevant legislation, regulation, EU directives and the Public Service (Social Value) Act, and clearly reflects proposed governance and monitoring arrangements via the Procurement Board. We will continue to monitor the implementation of the Procurement Code and operation of the Procurement Board.

In addition, we are currently undertaking an audit of the property services procurement processes prior to responsibility for this area of work transferring to corporate procurement. This work has identified a number of issues which are currently in the process of being discussed with management. Further details will be provided to the next Audit Committee meeting.