



Audit Committee

15 December 2014

Report title	Internal Audit Update – Quarter 2	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Accountable director	Mark Taylor	
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:

The contents of the latest internal audit update as at the end of quarter two.

1.0 Purpose

- 1.1 The purpose of this report is to update the Committee on the progress made against the 2014/15 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 2014 (quarter two) 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 There are no financial implications arising from the recommendations in this report.
[CN/04122014/J]

5.0 Legal implications

- 5.1 There are no legal implications arising from the recommendations in this report.
(TS01122014/A)

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: Q2 Audit Committee: 15 December 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 2014/15 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:

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 were completed within the first two quarters of the current year.

Key: AAN = Assessment of Assurance Need

Auditable Area	AAN Rating	Recommendations				Level of Assurance	
		Red	Amber	Green	Total		Number accepted
Bert Williams Leisure Centre – Income Management	Medium	-	5	2	7	7	Satisfactory
Coppice Performing Arts School – Provisional Financial Review	N/A*	-	-	-	-	-	N/A *
Legal Services Recharges	N/A*	-	4	-	4	4	N/A *
Adoption Reform Grant Certification	N/A*	-	-	-	-	-	N/A *
Parkfield Primary School	Medium	-	1	7	8	8	Satisfactory
Oxley Primary School	Medium	-	1	1	2	2	Substantial
St Luke’s CE Primary School	Medium	-	1	3	4	4	Satisfactory
St Andrew’s CE Primary School	Medium	-	4	4	8	8	Satisfactory
Grove Primary School – Mini Review	N/A *	-	-	-	6	6	N/A *
New Park Special School - Healthcheck	N/A *	-	-	-	19	-	N/A *
Woodthorne Primary School	Medium	-	4	7	11	11	Satisfactory
Stow Heath Primary School	Medium	-	2	16	18	18	Satisfactory
Automated Biometric Systems	Medium	-	1	2	3	3	Satisfactory
Adults and Community – Complaints Procedures	Medium	-	-	2	2	2	Substantial
Pensions Gratuities	Medium	-	4	1	5	5	Satisfactory
Equal Pay Claims	High	-	2	-	2	2	Substantial

Auditable Area	AAN Rating	Recommendations				Total	Number accepted	Level of Assurance
		Red	Amber	Green				
Information Governance Protective Marking Compliance	High	2	2	-	4	4	Limited	
Single Status - Collective Agreement Compliance	High	-	-	1	1	1	Substantial	
Budgetary Control Managed Audit	High	-	-	4	4	4	Substantial	
General Ledger Managed Audit	High	-	-	2	2	2	Substantial	
Senior Officers Emoluments	High	-	-	-	-	-	N/A **	
Senior Officers Salaries > £50K Check	High	-	-	-	-	-	N/A **	
CRC – Annual Assurance Review	High	-	2	-	2	2	Satisfactory	
CRC – Assurance Statement	High	-	-	-	-	-	N/A **	
Adult Education Service – HR Issues	N/A *	-	-	-	4	-	N/A *	
Project Costing and Billing System	N/A *	-	-	-	5	-	N/A *	
Rakegate Primary School – After School Club Procedures	N/A *	-	-	5	5	5	Satisfactory	
Petty Cash Procedures – Locality Teams	N/A *	-	7	-	7	7	Limited	
Very Sheltered Housing Contract Arrangements	Medium	1	5	3	9	9	Limited	
Treatment of VAT on Certificate Payments	N/A *	-	3	-	3	3	Limited	
Performance Appraisal Scheme	High	1	4	2	7	7	Limited	

Notes

* One-off pieces of work undertaken by request (outside of the Audit Plan).

** Certification only – therefore no audit opinion provided.

There were a number of other reviews underway as at 30 September 2014, and these will be reported back in later update reports.

Year on year comparison

21 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	2014/15 (Quarter 2)	2013/14	2012/13
Substantial	6	18	22
Satisfactory	10	51	44
Limited	5	9	6

3 Key issues arising

Information Governance Protective Marking Compliance

An audit of the information protective marking arrangements provided only limited assurance that e-mails sent from the @wolverhampton.gov.uk e-mail address complied with corporate policy. Specific issues identified included the following:

- Based on an examination of e-mails over a two month period it was identified that approximately 55% of emails contained no evidence of information protective marking in their subject line;
- There appeared to be a general over-use of the 'PROTECT' classification of e-mails when compared to the 'NOT PROTECTIVELY MARKED' classification; and
- There were a number of cases where protective marking had not been applied correctly. In one case a highly confidential e-mail contained no information protective marking in the subject line.

Recommendations arising from our findings were discussed and agreed with management for implementation.

Petty Cash Procedures – Locality Teams

This petty cash relates to payments made by locality social care teams under Section 17 of the 1989 Children Act to safeguard and promote the welfare of children who are in need. The team sit under the Children In Need/ Child Protection service area. Purchases should relate to emergencies regarding provisions, assistance with utility bills, short term child care etc. Following a referral by Banking Services, a review of the petty cash imprest arrangements operated by the South West Locality Team was undertaken. We found a number of failures, including:

- to undertake regular reconciliations of the petty cash imprest as part of the reimbursement claim process, in accordance with Financial Procedure Rules.
- maintain adequate records of the reimbursement claims made and the expenditure to which they relate, also in line with Financial Procedure Rules.
- record petty cash information accurately within the Agresso imprest reconciliation and expenditure records.
- utilise petty cash for low value transactions.
- authorise petty cash reimbursement claims prior to submission.
- undertake independent ad hoc reconciliations of the petty cash account.

The recommendations arising from our work were agreed with management for implementation before 31 October 2014. There is also a general review being undertaken of the Section 17 procedures for both making and the type of payments made, and we are involved in this project team.

Very Sheltered Housing Contract Arrangements

An audit of the operational and contract management framework for the Council's Very Sheltered Housing (VSH) Schemes was undertaken. VSH is rented housing provision that delivers flexible care and support services. The aim of the scheme is to provide supported living so that people have the opportunity to live in their own self-contained property whilst having on site access to care and housing related support in accordance with assessed needs. This identified the following key issues:

- There was a lack of clearly defined and assigned roles and responsibilities. Specifically overall contract management responsibility had not been assigned for VSH contracts. In addition governance arrangements had not been clearly defined and established.
- VSH contracts had not been reviewed since they were established in 2012, in accordance with contract terms and conditions / service specifications.
- There was a lack of effective contract monitoring and reporting arrangements in relation to VSH.
- Effective monitoring of voids was not undertaken even though a number of the schemes frequently failed to fill all their 'block' places, resulting in the Council paying for vacant VSH places.
- Adequate procedures had not been established to ensure there was an effective challenge when VSH providers refuse client referrals.
- Regular financial monitoring was not undertaken against contract values to ensure that value for money was being received and the contract was being delivered within budget.

All of the recommendations arising from our work have been agreed with management for implementation by 30 April 2015.

Treatment of VAT on Certificate Payments

An audit review of the treatment of VAT on contractor certificate payments was undertaken as a result of a potential non-compliance issue. Certificate payments are typically made against large contracts on the basis of a professional valuation of works undertaken to date. Currently some payments are made inclusive of VAT (i.e. gross) on the basis of a valuation certificate via the current no-invoice payment mechanism, without having received a VAT invoice. Consequently, the VAT paid is also reclaimed prior to the receipt of a VAT invoice. This is not in accordance with HMRC rules. In total three 'amber' rated issues were identified as follows:

- Not complying with HMRC Rules regarding making certificate payments inclusive of VAT and reclaiming VAT without receipt of a VAT Invoice.
- Not obtaining and retaining VAT invoices as supporting evidence for payments made.
- A lack of monitoring to ensure payments are made in accordance with HMRC Rules.

Our recommendations were agreed with management for immediate implementation.

Performance Appraisal Scheme

Our full report was presented at the last meeting of the Audit Committee. Since that time, the Council has taken steps to increase the number of appraisals undertaken. Regular data on performance is now being tracked through a number of Councillor and officer routes.

Agresso

The implementation of Agresso continues to be one of the major focusses of our work, and during the second quarter of 2014/15 we undertook the following activities:

- On-going representation on the FutureWorks Board - providing assurance to the Board and the Audit Committee at various stages of the programme.
- Working with the Payroll team to undertake and review payroll reconciliations in support of the payment of the Council and Wolverhampton Homes payrolls from Agresso.
- Continuing to provide significant internal audit resources to assist the Hub in clearing the backlog of invoices for payment.
- Focusing particular attention on the payments processes, specifically where arrangements have been made to facilitate payments outside normal processes and in monitoring duplicate payments.
- Undertaking a piece of work designed to provide assurance in respect of the benefits realisation process.
- Providing extensive and on-going general advice and support in respect of the project.

In addition to the above, we intend to undertake full end to end audit reviews of all key systems, in order that we are able to provide assurance in respect of the implementation of Agresso.

The extent of our role in the implementation of Agresso, will in all likelihood impact upon our ability to complete a number of planned audits within the current year. However, we will continue to review our planned audit capacity in line with the changing risk profile of the Council, and audit resource will continue to be targeted towards the higher risk areas.

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 2013/14 managed audits work was completed to the satisfaction of PwC. The 2014/15 programme of managed audits has now commenced and will be completed in the coming months.

The follow up of previous recommendations

In quarters 3 and 4, we intend to commence our follow up work on key recommendations made as part of the limited assurance reports we issued in 2013/14. Progress on which will be reported at future Audit Committee meetings.

Counter Fraud Activities

We have continued to investigate all allegations of suspected fraudulent activity, during 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.