

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 26th JUNE 2012

INTERNAL AUDIT 2011/12 QUARTER 4 UPDATE REPORT

REPORT OF THE AUDIT & ASSURANCE MANAGER

1 PURPOSE

- 1.1 To update members on the work of Internal Audit during quarter four – January – March 2012.

2 RECOMMENDATIONS

- 2.1 That members of the Audit Committee note the information in the Internal Audit quarter four update report.

3 SUMMARY

- 3.1 The Audit Committee receives a quarterly update of the work of Internal Audit. This report includes the update report for quarter four – January to March 2012.

4 PREVIOUS MINUTES

- 4.1 Audit Committee 20th September 2011 – Quarter 1 Update report 2011/12
Audit Committee 1st November 2011 – Quarter 2 Update report 2011/12
Audit Committee 31st January 2012 – Quarter 3 Update report 2011/12

5 QUARTER FOUR UPDATE (JANUARY - MARCH 2012)

- 5.1 The report provides information on the work of Internal Audit during January to the end of March 2012 and provides an update on the progress of previous audit reports issued (April 2009 to December 2011).
- 5.2 Internal Audit activity during this period has focussed on completion of the audits set out in the Internal Audit Plan and particularly the final areas of work on the “key financial systems” for the external auditor. There has also been unplanned work completed in respect to a review at Newport Pool and a review into the ICT infrastructure project and contract (see paragraph 5.9).
- 5.3 The following update report appendices are attached:
- i) **Appendix A** – List of final reports issued in quarter four with our grading – red, amber, yellow or green. This report also includes budgeted time, actual time and percentage variance.
 - ii) **Appendix B** – List of all work undertaken for quarter four of 1 day or more.
 - iii) **Appendix C** - Previous graded reports from April 2009 to December 2011 with their current status. (Members should note that green reports have now been excluded from this report).
 - iv) **Appendix D** – Summary of the amber report issued quarter 4.

- v) **Appendix E** – Agreed recommendations and action taken in respect to the review of the ICT infrastructure project and contract.

5.4 Appendix A shows 8 final reports were issued in quarter 4. This is slightly down on previous quarters because 6 reports were issued in draft during early/mid March and were finalised in late April due to the Easter holidays. One of these was the purchase ledger audit which had taken longer than estimated to complete due to it being part of the new financial system implemented in July 2011 and the requirement for training, familiarisation and additional testing/clarification in many areas.

5.5 The areas shown in this table were over their allocated time by more than +/- 5% for the reasons highlighted below:

Area	Variance (> +/- 5%)	Reason
Captain Webb Primary school	-16%	School was well prepared and this assisted the audit process and time on site
Sales Ledger	+95%	The sales ledger audit was almost double the estimated time due to it being part of the new financial system, training, familiarisation and additional testing/clarification required in many areas.
General Ledger	-8%	This was slightly under budget as some of the work had already been covered in the purchase ledger and interfaces audits.
Housing/Council Tax Benefits	-7%	Slightly under budget due to the improvements to the system and therefore less testing was required compared to previous years.
Haughton School	-25%	School was well prepared and this assisted the audit process and time on site

The reasons for the positive and negative variances are as explained and time allocations during 2012/13 will be reviewed based on this information.

- 5.6 Areas of more than 10 days in Appendix B are explained below:
- Advice & consultancy – due to all the restructures and implementation of revised governance, systems and procedures service areas are seeking advice.
 - Fundamental systems – payroll, main accounting, purchase ledger and sales ledgers are all significant audits and as a consequence the time during the quarter was more than 10 days.
 - Newport pool review – analysis, testing, collection of information and reporting took the timescale over 10 days to complete.
 - Planning applications – this area had not been reviewed for a while which has resulted in over 10 days work being required. Draft report issued late March 2012.
- 5.7 From Appendix C there is currently only one original amber report that remains amber – Abacus review and the follow up is in progress with further work on site required to obtain evidence to confirm implementation of the recommendations. The results of this will be reported in the next update report to members.
- 5.8 There was one amber report issued during quarter 4 – Sales ledger and summary information is provided in Appendix D. Management actions to implement recommendations have been agreed and Internal Audit are confident that improvements will be made when the follow up is undertaken at the end of June.

5.9 ICT Infrastructure Project and Contract

- 5.9.1 The review into the ICT Infrastructure contract and project was initiated in December 2010 by a complaint being received anonymously about potential significant payments being made to the infrastructure supplier. The final report was issued as a yellow report and agreed by the Senior Management Team in March 2012.
- 5.9.2 The reasons for the duration of the review are due to the complexity of the project, the amount of information that had to be located and then analysed (a lot of which had/was held by employees who had left the Council), coming to the conclusion that some information was missing and the restructuring programmes across the Council.
- 5.9.3 The review found that the contract had been changed by the new Project Manager in order that the project design was undertaken by the Council instead of the supplier and that the overall implementation provided a better outcome to meet the Council's needs.
- 5.9.4 The Project Manager negotiated a contractual payment of £368,000 to pay for the services and work already provided by the supplier at the time of the contract change. Further payments were made to the supplier under the revised contract for their work undertaken to support the revised implementation.
- 5.9.5 The review identified that the Project Manager had not followed the appropriate governance reporting arrangements put in place to endorse this significant contract change although his actions were in the best interest of the Council, within his authorisation limits and the agreed budget.
- 5.9.6 Implementing the revised solution has resulted in over £200,000 being saved by the Council and the following additional benefits being realised:
- The entire ICT infrastructure has been updated onto a modern and virtual platform which is scalable, adaptable and flexible.
 - All the requirements that were originally set have been realised.
 - The ICT service has improved from regular infrastructure failures with low customer satisfaction and the Schools on the verge of withdrawing from their contracts to an ICT service that is more stable and reliable, and one where we can build new services onto (i.e. the use of cloud services) which will make significant savings across equipment purchasing.
 - ICT achieved 100% buy back on the Schools Service for 11/12 and this would not have happened if the project had not been implemented in the changed model.
 - As the Council is now on a virtual platform it will be able to decommission the Civic Offices Data Centre within the costs and timescales put forward.
- 5.9.7 The review identified 8 recommendations for the Senior Management Team (SMT) to implement to learn from the review findings and improve processes. The recommendations are attached as Appendix E with the agreed actions and implementation dates.
- 5.9.8 The agreed actions include a revised project governance process for significant projects to ensure that they are all monitored by the Senior Management team and the Managing

Director/Director. In addition revised payment authorisation levels have been introduced which include counter authorisations for all payments over £50,000.

5.10 All areas reported on during the quarter not highlighted in this report are either improving or the follow ups are in progress or planned. Internal Audit is confident and has been assured by management that controls have and will continue to improve in all areas where recommendations have been made. There are no other issues to bring to the attention of the Committee at this time.

6 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	All members of Audit & Assurance have attended equal opportunities/ diversity training. If any such issues arose during an audit or risk review they would be notified to the appropriate manager.
Environmental Impact	All members of Audit & Assurance are environmentally aware and if any issues were identified they would be notified to the appropriate manager.
Legal Implications	The Accounts and Audit (England) Regulations 2011 state that the Council must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control. There is also a requirement to comply with CIPFA's Code of Practice for Internal Audit in Local Government. In the event that an audit reveals an issue which requires a recommendation concerning a legal matter this can also be referred to the Council's Legal Services Team for further advice and assistance.
Links with Corporate Priorities	The audit plan is linked to corporate priorities through the risk management process. Where high risks are identified then Audit Services undertakes work on a more regular basis.
Risks and Opportunities	The role of internal audit includes a review of the controls in place to manage the risks within service areas. The reports produced assist the Council in improving systems and controls (mitigating risks) and therefore the delivery of services and achievement of objectives. Internal Audit staff under the supervision of the Assistant Director Finance, Audit & IG annually review the Council's risk management process and have concluded that it is operating effectively.
Financial Implications	The Council has saved over £200,000 due to the changed implementation approach for the ICT infrastructure project. Where recommendations are made by Audit Services, if possible, cost/savings implications are identified. MLB 27.04.12
Ward Implications	Internal Audit is responsible for the internal audit of all the Council's activities and at all Council locations and therefore operates within all Council Wards.

7 BACKGROUND PAPERS

Annual Audit Plan 2011/12 and strategy

Report by Jenny Marriott, Audit & Assurance Manager 383101

FINAL REPORTS ISSUED QUARTER FOUR – JANUARY – MARCH 2012

Audit Area	Opinion	Follow Up Due	Days allocated	Days Taken	Variance
Captain Webb Primary school	Green	N/A	7.75	6.5	-16%
Sales Ledger	Amber	June 2012	25	48.9	+95%
General Ledger	Yellow	June 2012	50	46.1	-8%
Housing Benefits	Green	Annual Audit	50	46.5	-7%
Supplier Query Review	Yellow	July 2012	**	16.5	n/a
ICT Infrastructure Contract & Project review	Yellow	September 2012	**	25	n/a
Newport pool review	Yellow	August 2012	**	13	n/a
Haughton School	Green	N/A	7.75	5.8	-25%

** - additional unplanned works.

QUARTER 4 - AREAS WHERE WORK UNDERTAKEN HAS BEEN FOR ONE DAY OR MORE

Audit Area	Days
Abacus system review	1
Advice/Consultancy + organisational change	24
Agresso Interfaces with other systems	5
AGS assurance & certification	2
Building Control Fees	5
Building Schools for the Future	1
Business Planning	3
Business watch	1
Captain Webb School	7
Care first application review	1
Catering spot checks	1
Constitution review	1
Contract changes & waivers of SOs	1
Corporate Induction Training	1
Discharge process - Acute Hospitals & Mental Health Units	2
Education liaison/dev groups	1
Email & Internet Filtering	2
External Audit Liaison/preparation for new arrangements	4
Family Connect	1
Finance savings	6
FMS System development	1
Follow ups	7
Fraud & Compliance Checks	5
Haughton School	6
HR/Payroll	28
ICT Infrastructure Contract review	4
ICT Procurement	1
Integrated Benefits System	8
Main Accounting	31
Markets & Cash collection	9
Newport Pool	1
Newport Pool Review	13
Oakengates Tennis contract	1
Planning Applications	15
Public Health Transfer	1
Purchase Ledger	13
Sales Ledger	25
School Funds	1
Security Group	1
Temporary Accommodation	3
Town Park Visitors Centre	1
Visible Minorities Development Council - Complaint	2
Wellington Library / First point	2