

Agenda

Audit and Governance Committee

Friday, 12 September 2014, 10.00 am
County Hall, Worcester

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كوردی سۆزانی. ننگر ناتوانی تیئگی له نامۆرۆکی ندم بێلگهیه و دستت به هیچ کس ناگات که و بیگیتریتوه بۆت، تکایه تهلغۆن بکه بۆ ژماره 01905 765765 و داوا ی رهنۆینی بکه. (Kurdish)

ਪੰਜਾਬੀ। ਜੇ ਤੁਸੀਂ ਇਸ ਦਸਤਾਵੇਜ਼ ਦਾ ਮਸ਼ਹੂਨ ਸਮਝ ਨਹੀਂ ਸਕਦੇ ਅਤੇ ਕਿਸੇ ਅਜਿਹੇ ਵਿਅਕਤੀ ਤੱਕ ਪਹੁੰਚ ਨਹੀਂ ਹੈ, ਜੋ ਇਸਦਾ ਤੁਹਾਡੇ ਲਈ ਅਨੁਵਾਦ ਕਰ ਸਕੇ, ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ ਮਦਦ ਲਈ 01905 765765 'ਤੇ ਫ਼ੋਨ ਕਰੋ। (Punjabi)

DISCLOSING INTERESTS

There are now 2 types of interests:
'Disclosable pecuniary interests' and **'other disclosable interests'**

WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3rd party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

NB Your DPIs include the interests of your spouse/partner as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days and
- **Declare** it where you have a DPI in a matter at a particular meeting
 - you must **not participate** and you **must withdraw**.

NB It is a criminal offence to participate in matters in which you have a DPI

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:
You/your family/person or body with whom you are associated have a **pecuniary interest** in or **close connection** with the matter under discussion.

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests OR** relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
 - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

Audit and Governance Committee
Friday, 12 September 2014, 10.00 am, County Hall, Worcester

Membership: Mr W P Gretton (Chairman), Mrs S Askin, Mr S J M Clee,
Mr N Desmond, Mr L C R Mallett, Mr R J Sutton and Mr P A Tuthill

Agenda

Item No	Subject	Page No
1	Named Substitutes	
2	Apologies/Declarations of Interest	
3	Public Participation <i>Members of the public wishing to take part should notify the Director of Resources in writing or by e-mail indicating the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case 11 September). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.</i>	
4	Confirmation of Minutes	
5	The Hive - Governance Arrangements	1 - 6
6	Sales, fees and charges	7 - 20
7	Internal Audit Commissioning update	21 - 22
8	Internal Audit Progress Report 2013/14	23 - 50
9	Disaster Recovery Procedures	Report to follow.
10	Work Programme	51 - 52

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To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer on 01905 766621, slewis@worcestershire.gov.uk

All the above reports and supporting information can be accessed via the Council's website at <http://www.worcestershire.gov.uk/cms/democratic-services/minutes-and-agenda.aspx>

Date of Issue: Wednesday, 3 September 2014

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Audit and Governance Committee
12 September 2014

5. THE HIVE – GOVERNANCE ARRANGEMENTS

Recommendation

1. The Director of Business, Environment and Community recommends that:
 - a) the Current governance of the Hive be noted;
 - b) the general progress made at the Hive in a number of areas covered in the report be noted; and
 - c) future reports be brought to Committee on an exception basis.

Background Information

2. This 6 monthly review report will update members of the Committee on the ongoing operation of The Hive in line with the Governance Structure as set out in Schedule 1 of the Stakeholders Agreement (Attached as an Appendix).

3. The Hive is a unique project that brought together the County Council's public Library, History Centre, Records Office and Archaeology services with the University of Worcester's new Academic Library and the County Council/City Council Customer contact centre (the Hub). The project entailed a total capital spend of £59.6m comprising £43.3m within the PFI contract and £16.3m non PFI costs. The main element of the PFI finances has been the provision of £40.9m of PFI credits from central Government (paid over 25 years of the Contract). The main PFI contractor is a company called Galliford Try Investments (ProjectCo) who sub-contracts the Facility Management role to a company known as Bellrock (formerly SGP).

4. The Hive has now been open for just over 2 years. As was reported to committee previously, the usage of The Hive continues to be very impressive and a pattern of consistency is emerging, see below.

Totals as at 31st July 2014	Total
Visits	1,921,280
Computer Users	45,189
New Members	30,016
Issues	2,054,865
Explore the Past Visits	137,645
Hub - Total customer transactions (incl. payments)	122,662
Hub - Total kiosk payments	47,869

Background Information

5. This report, as documented at the last Committee, provides a six monthly progress report on the progress and success of ongoing governance arrangements at The Hive. The report

includes an update on a number of issues including:

- Governance at The Hive
- Exploiting business and commercial opportunities at The Hive
- Signing off outstanding defects at The Hive
- Raising the profile of The Hive.

Governance at the Hive

6. As highlighted in previous reports, the governance of The Hive is outlined in Schedule 1 of the Stakeholders Agreement, attached to this report as an Appendix. Concern has been raised at previous Committee meetings around the complexity and cost of the governance structure and the number of meetings that take place, whilst recognising that The Hive represents a complex partnership. Over the previous months, there has been a continued reduction in meetings and each governing committee has been reviewed in terms of The Hive's operational requirements. The Strategic Services Board and Project Liaison Group hold quarterly meetings now that the defects are almost closed. The other committees meet monthly or bi-monthly dependent on business need.

7. The overall structure as outlined in the Appendix has not changed since the last meeting. The remaining meetings identified in the Structure and as above have evolved into only essential business meetings that deal with the ongoing operation of The Hive.

Fully Exploiting the Business and Commercial Opportunities at The Hive

8. The Hive has improved business use and its facilities with commercial bookings increasing steadily. The Business Centre has been re-vamped and re-launched at a Business Breakfast in April and a series of events is planned in for 2014 sponsored by Haines Watt accountants. We are also recruiting a graduate intern in October to further develop business links and projects. Merchandise is selling well and plans are underway to develop a retail outlet to sell more and to promote Worcestershire's collections and prints. Use of Level 0 as an exhibition/event space is developing interest and we are hosting the Reading Agency's publisher's conference in the Autumn. The Hive is being promoted as a film location and we have had interest from several commercial companies to photograph the building for promotional use.

Developing New Services for Students through The Hive

9. The University of Worcester have improved their offer to students at the Hive through more student support and offering quiet study in the Hive's meeting rooms. New initiatives continue to be instigated on a regular basis including:

- Improvement of student support services
- Increasing the range of publications and journals available at the Hive for Students
- Developing opportunities for student volunteering and work placements
- Continued use of the studio for professional and academic lectures and events.

Signing off

10. The defects programme has now been almost fully signed-

Outstanding Defects at The Hive

off apart from outstanding issues remaining with the function of the Building Management System with regard to river water cooling and ventilation. Meetings have been held with the Contractors and plans are now in place to repair and reinstate the water cooling system by the end of September 2014. The Hive Strategic Services Board continues to be fully aware of all defects and outstanding concerns and has met with ProjectCo to voice strong concern over the delay in rectifying the BMS defects. The BMS will not be fully signed-off until there is complete satisfaction from the relevant parties. There is no time-scale on when we have to sign off final completion. To re-assure the Committee further, any risk on not completing defects or having to look at replacement or re-design of equipment rests entirely with the Contractor and not WCC/the Authority (Partnership). Legal teams have been alerted as an environmental noise complaint was issued due to the temporary chiller installed as a result of the BMS not working. This has not been taken further.

Raising The Profile of The Hive

11. The Hive continues to be nominated for awards and accolades and features in many publications as a case study. The building and its achievements continue to attract national, regional and local press coverage. We have had recent visit from the Secretary of State for Culture, Media and Sport led by Adrian Hardman which resulted in excellent media coverage and The Hive was mentioned in parliament when discussions took place on the libraries review. Colleagues and academics continue to undertake tours, visits and attend seminars and conferences to talk about The Hive's achievements and this continues to be a priority. We continue to develop our events programme which now includes regular professional drama, a lecture series, schools programme, business programme and literary events/signings. We are now in the next phase of re-examining strategic objectives and long-term plans for The Hive to explore creative and productive ways of using the building and its' services. Part of this business planning is to identify new partners, funds and opportunities to grow The Hive and the offer within it. We will keep the Committee updated on progress made.

Physical Alterations to The Hive

12. The building is now more settled and there are no more plans to further enhance it physically. The Croft Road car park improvements are still in progress, but on hold pending the development of the site next year. It is envisaged that building work to improve the site and create a retail offer for Worcester will be confirmed shortly with our partner the University.

Conclusion

13. The Hive is continually improving and we are keen to undertake constant reviews and respond to the ever-changing needs and demands of the partners and the environment we are operating in. We embrace the need to show continued innovation and creativity with our partners in order that the Hive remains the highly valued asset it has become for students and residents alike across Worcester and Worcestershire. In the future we will report to this committee on an exception basis when there are proposals which could affect the future Governance of the Hive

Supporting Information

The Appendix shows the current governance structure for The Hive.

Contact Points

County Council Contact Points

Worcester (01905) 763763, Kidderminster (01562) 822511 or Minicom: Worcester (01905) 766399

Specific Contact Points for this Report

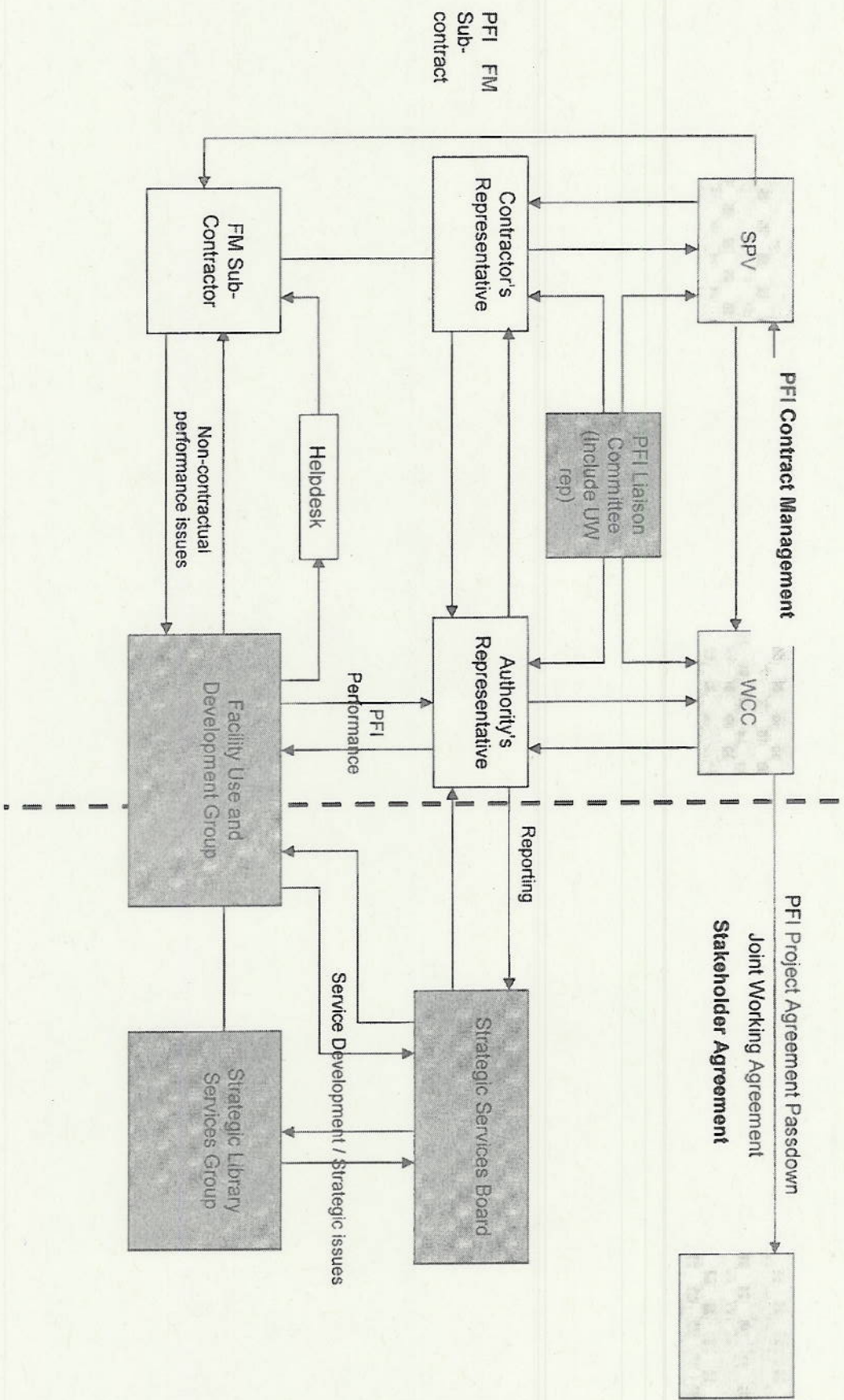
Neil Anderson, Head of Culture & Community:
01905 766580, nanderson1@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Director of Business, Economy and Community) the following are the background papers relating to this report:

The agenda papers and minutes of the Audit and Governance Committee on 8 May 2012, 30 November 2012, 13 September 2013 and 31 March 2014.

**SCHEDULE 1
CONTRACTUAL AND GOVERNANCE MODEL**



PFI FM
Sub-
contract

2012/2929033 61

1

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Audit and Governance Committee
12 September 2014**6. SALES, FEES AND CHARGES****Recommendation**

1. The Head of Finance and Business Support recommends that the Committee:

a) notes the report; and

b) considers whether any further information and investigation is required.

Background Information

2. In May 2010 a review was commissioned to produce an "Income Diagnostic" report for the County Council. Whilst the Council receives income from a variety of sources, the report had a specific focus on income generated from sales, fees and charges.

3. A comparison was made of the level of income generated by Worcestershire County Council against other Counties. The conclusion was that although Worcestershire was performing better than average "it was not amongst the best performing authorities".

4. In 2008/09, the Council generated income of £58million through sales, fees and charges. The report indicated that if some service areas were to increase their income from sales, fees and charges to the level of the top performing quartile of counties there could be a resultant increase in income to the authority. If performance were to match performance of the top performance authorities, the potential additional income could be £11.1million. The largest potential area for gain in the Council was identified as social care, and "in particular services for older people". The Executive Summary of the report is shown as Appendix 1.

5. The findings in the report were established using the Revenue Outturn (RO) returns which are required to be submitted to the Department for Communities and Local Government on an annual basis. The returns contain detailed information on expenditure and income across the range of services.

6. The report noted that whilst the analysis gave a high level benchmark, there were assumptions that the RO returns had been consistently completed across authorities and that further analysis would be necessary to interpret the nature of any opportunity and how to achieve it.

7. Following the external report, approval was given at

**Income Diagnostic
report updated with
2012/13 data**

Cabinet in October 2010 for a review of fees and charges. A cross Council group was established to review opportunities for further income generation. However, the conclusion was that there was minimum potential for further increases in income, mainly due to the fact that work was already taking place within directorates in this area.

8. Examples of work in the area of charging included:

- Review of adult social care charging to ensure that the full costs of services were recovered
- Reviews of charges in Development Control, Transportation Services, Home to School transport.

9. Local Authority charging is a complex area. Some charging regimes are mandatory and there is no scope for discretion. A particularly complex area is adult social care charging, where a high proportion of the income is mandatory in that the Council is under a duty to charge certain recipients of care (e.g residential and nursing care). Where the Local Authority is entitled to charge, there is a sometimes a statutory framework setting out the approach to be used which constrains the potential for discretion.

10. Since the initial income diagnostic analysis, various actions have been taken by directorates to increase income. This report gives the opportunity to review the findings of the initial report based on more recent data. It should be noted that the initial analysis included 34 authorities. However, this 2012/13 analysis is for 27 shire counties, which takes into account the local government reorganisation which took place in April 2009.

11. The initial report was a lengthy document, based on data from the 2008/09 RO returns. The most recent available information is based on the 2012/13 revenue outturn information.

12. Council Officers have completed a high level analysis of the overall level of income and major front line services, and the results are shown in graphs at Appendix 2.

Total Income

Total income generated through sales, fees and charges is £59.52million, as a percentage of total service expenditure is 7.71%, compared with 7.21% in 2008/09.

Education Services

Total income generated through sales, fees and charges as a percentage of total service expenditure is 5.68%, compared with 5.2% in 2008/09. Worcestershire's 2012/13 ranking is 6th highest out of 27 authorities. In 2008/09 it was 12th out of 34 authorities.

Adult Social Care

Total income generated through sales, fees and charges as

a percentage of total service expenditure is 10.92% compared with 10.3% in 2008/09. Worcestershire's 2012/13 ranking is 26th highest out of 27 authorities. In 2008/09 it was 19th out of 34 authorities.

Transport

Total income generated through sales, fees and charges as a percentage of total service expenditure is 10.82% compared with 6.68% in 2008/09. Worcestershire's 2012/13 ranking is 17th highest out of 27 authorities. In 2008/09 it was 22nd out of 34 authorities.

Planning and Development

Total income generated through sales, fees and charges as a percentage of total service expenditure is 19.4% compared with 30.4% in 2008/09. Worcestershire's 2012/13 ranking is 6th highest out of 27 authorities. In 2008/09 it was 2nd out of 34 authorities.

Cultural Services

Total income generated through sales, fees and charges as a percentage of total service expenditure is 11.03% compared with 12.9% in 2008/09. Worcestershire's 2012/13 ranking is 9th highest out of 27 authorities. In 2008/09 it was 11th out of 34 authorities.

Environmental Services

Total income generated through sales, fees and charges as a percentage of total service expenditure is 4.55% compared with 4.6% in 2008/09. Worcestershire's 2012/13 ranking is 16th highest out of 27 authorities. In 2008/09 it was 20th out of 34 authorities.

Summary

13. The high level analysis confirms that overall, the Council's percentage income as a proportion of total service expenditure has marginally increased since 2008/09.

14. There are instances in which the Council's ranking, when compared with other authorities, is lower than in 2008/09, which may warrant further investigation and discussion. For example, the ranking of Adult Social Care income has dropped from being ranked 19th out of 34 authorities to 26th out of 27 authorities. Should the percentage of income for adult social care rise to the median of 14.83%, income would be £7million higher. However, income from adult social care services is predominantly governed by legal frameworks, and will be influenced by the demographic of those receiving services.

15. Finally, the analysis purely from the RO returns should be viewed with some caution. There is the potential for inconsistent completion of returns and it is difficult to view income in isolation.

Supporting Information

Appendix 1 – Executive Summary 2008/09 report
Appendix 2 – Income Diagnostic 2012/13

Contact Points

County Council Contact Points

Worcester (01905) 763763, Kidderminster (01562) 822511 or
Minicom: Worcester (01905) 766399

Specific Contact Points

Sue Alexander Head of Finance and Business Support
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E mail : salexander@worcestershire.gov.uk

List of Background Papers

In the opinion of the proper officer (in this case the Head of Finance and Business Support.) the following are the background papers relating to the subject matter of this report:

Income Diagnostic report May 2010

Cabinet report October 2010

Executive Summary

Worcestershire County Council's performance on generating income from sales, fees and charges is in the second best quartile (i.e. better than average, but not amongst the best performing authorities). According to nationally submitted Revenue Outturn forms, in 2008/9, the Council generated approximately £58m through sales, fees and charges. If the Council were able to increase its performance to match the authority performing at the 75th percentile, then it would generate £11.1m more.

The potential figure of £11.1m assumes universal performance at the 75th percentile. However, if the authority could maintain its performance where it is currently performing above the upper quartile and improve those areas where performance is below, then the net gain would actually be greater. However, it is important to treat this conclusion with caution as further work is required to establish where significant variations are the result of different recording practices rather than different performance levels. Our initial work in this area does identify risks that can be considered in reviewing the results.

The largest potential area for gain in the Council is social care and in particular services for older people. According to the national benchmarks the Council recovered the smallest percentage of its costs of any English County. The difference between the actual performance and the 50th percentile was equivalent to £4.1m and much more than £5.3m to the 75th percentile.

These calculations are based on a number of assumptions:

- That Worcestershire County Council has compiled its CIPFA Revenue Outturn forms for 2008/9 accurately and in compliance with the documented guidance.
- That the data submitted by other authorities is accurate. Whilst there are likely to be variations in how information is captured between service blocks and service areas, it is unlikely that there are significant difference in overall terms service by service.

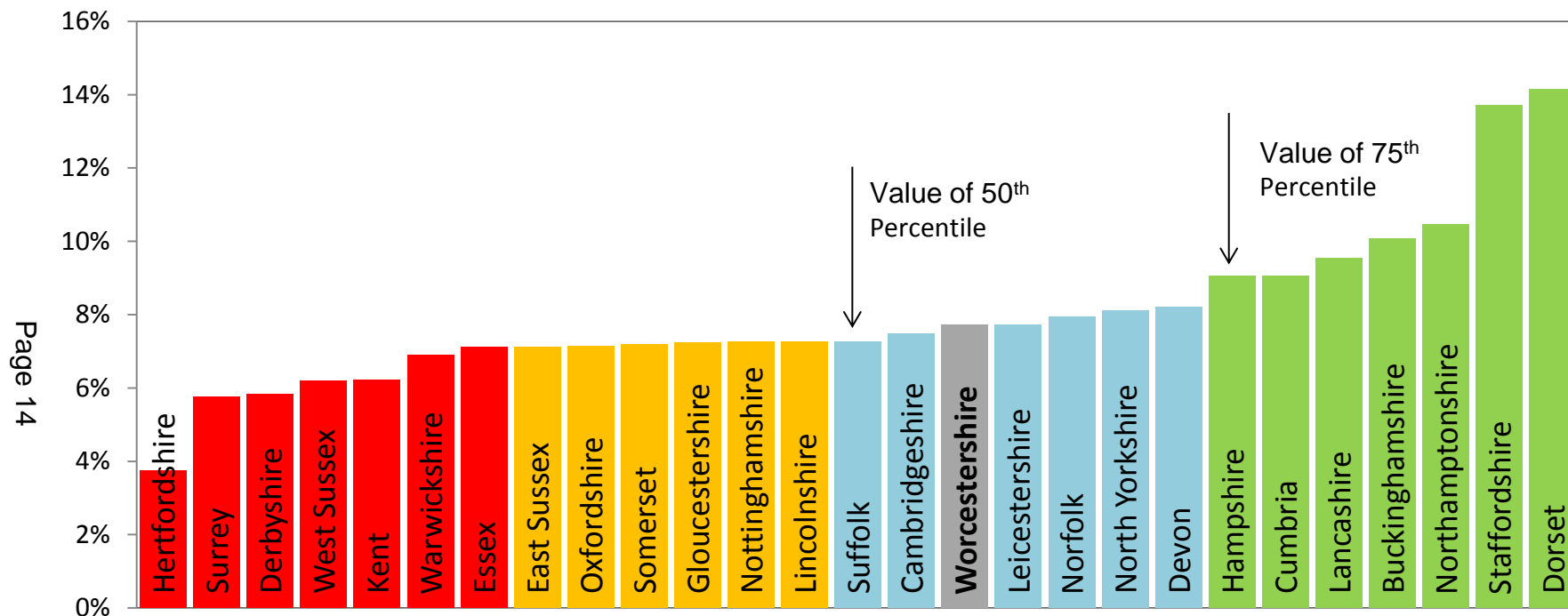
Where there are charts that contain less than 34 authorities, this indicates that one or more authorities have submitted a nil return for that cell in the form. This could be the result of a number of factors such as: no income generated, that service not provided or the information is captured elsewhere on the form. At this stage we are unable to establish the reasons for individual cases.

In noting these calculations, it is important to recognise that these are drawn from high level benchmarks and further analysis is required to interpret the nature of the opportunity and how to achieve it. Furthermore, Deloitte has not undertaken any work to audit or verify the individual Revenue Outturn forms submitted by authorities (including Worcestershire's own return) and therefore cannot guarantee on the accuracy of the source data used for the analysis.

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Income Diagnostic 2012/13

Total Services – Sales, Fees and Charges as % of Total Service Expenditure

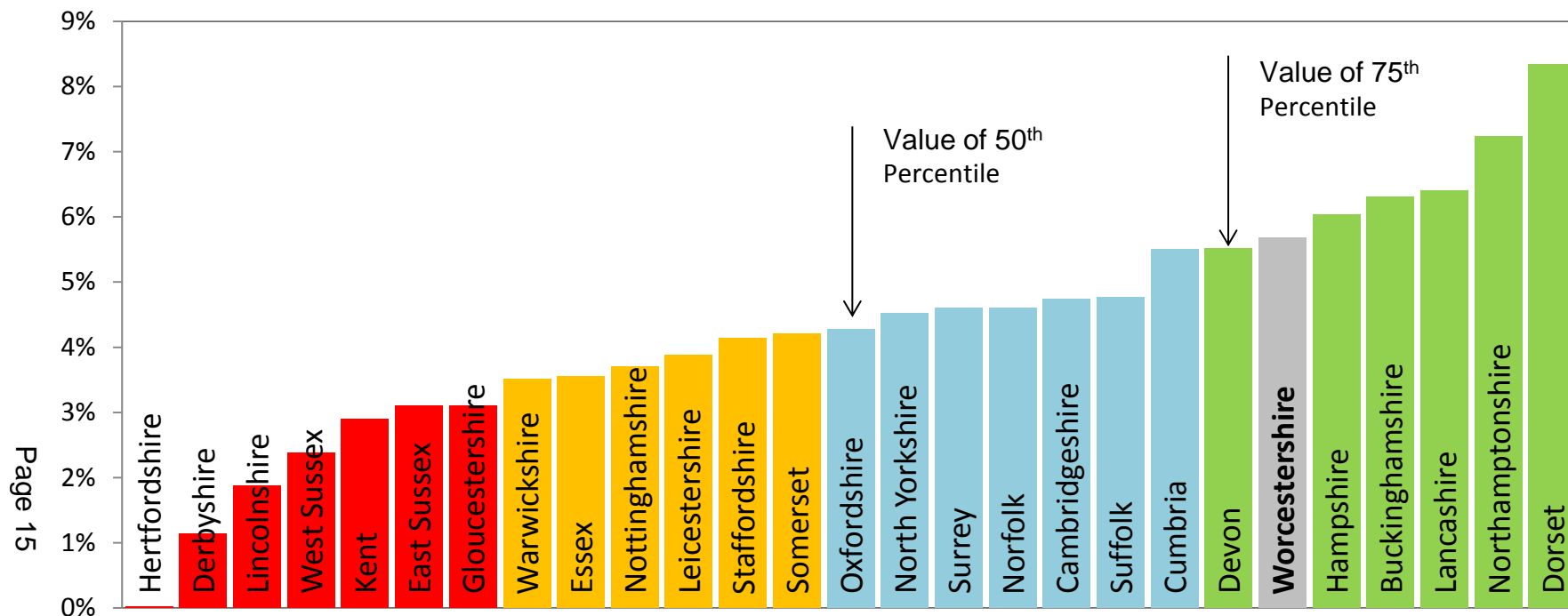


Ranked **12th** highest of **27** authorities Value = 7.71%

Basic Chart Data

Worcestershire County Council %	7.71%
Median	7.27%
75 th Percentile	9.05%
Worcestershire County Council Actual	£59.52m

Total Education – Sales Fees and Charges as % of Total Service Expenditure



Ranked **6th** highest of **27** authorities Value = 5.68%

Basic Chart Data

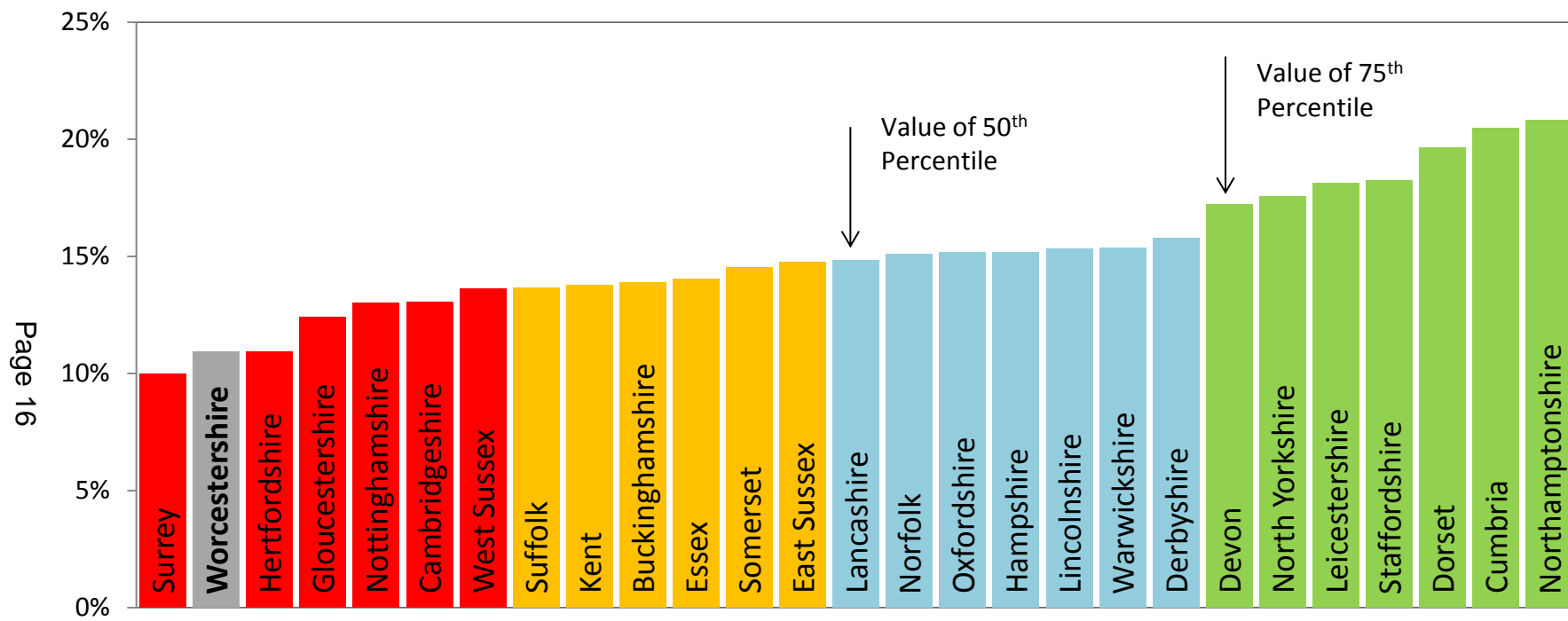
Worcestershire County Council % 5.68%

Median 4.27%

75th Percentile 5.51%

Worcestershire County Council Actual £19.3m

Total Adult Social Care – Sales, Fees and Charges as % of Total Service Expenditure

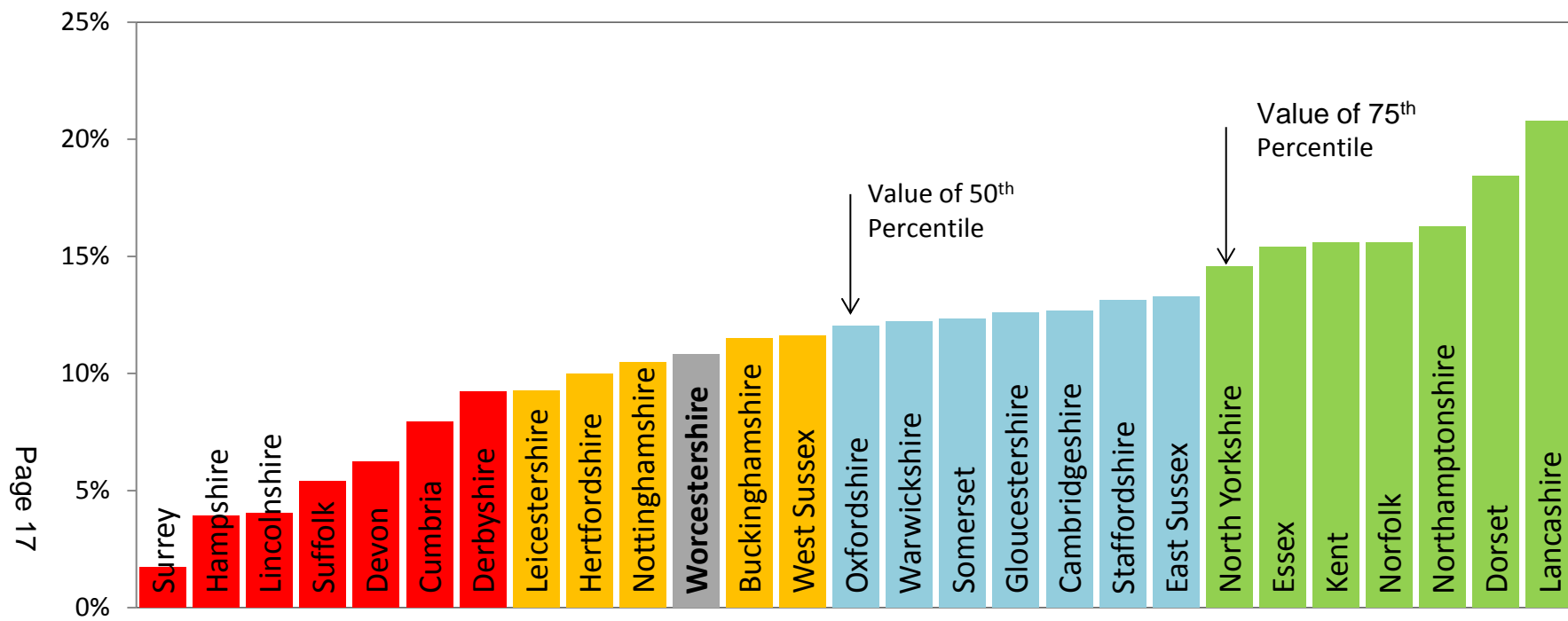


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Ranked **26th** highest of **27** authorities Value = 10.92%

Basic Chart Data	
Worcestershire County Council %	10.92%
Median	14.83%
75 th Percentile	17.21%
Worcestershire County Council Actual	£19.6m

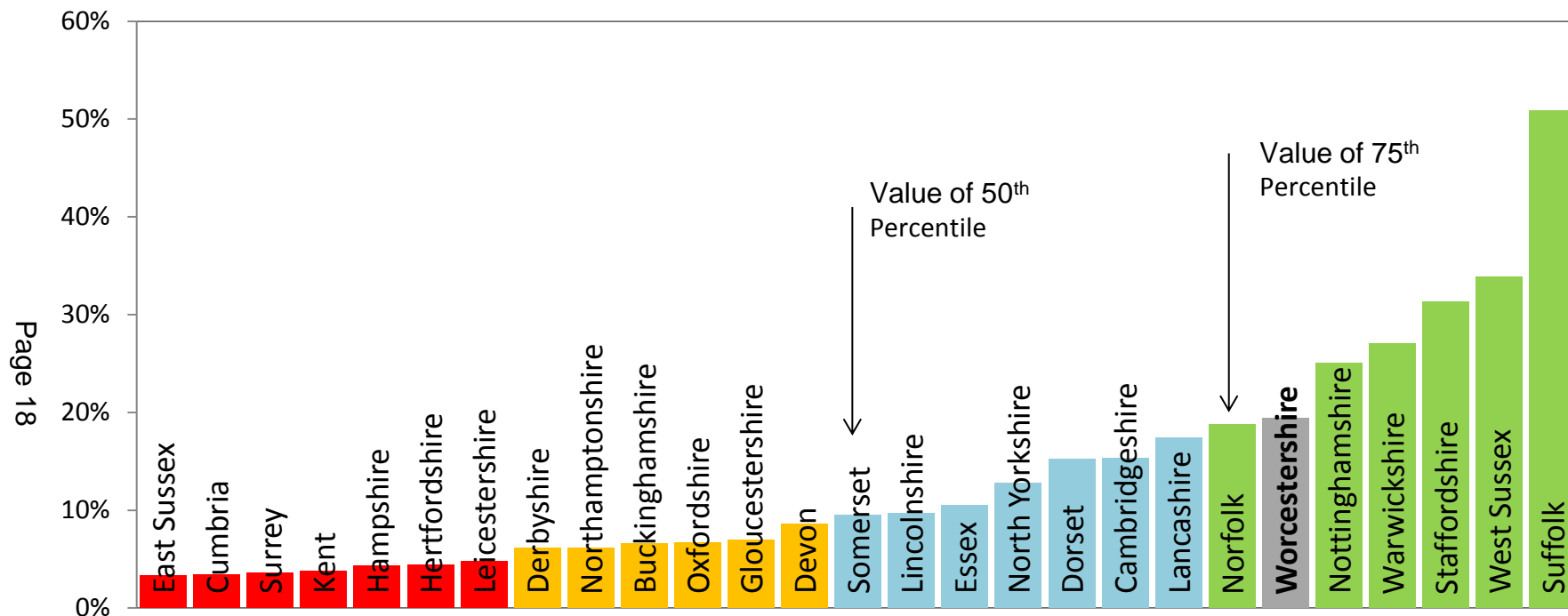
Total Highways and Transport Services – Sales, Fees and Charges as % of Total Service Expenditure



Ranked **17th** highest of **27** authorities Value = 10.82%

Basic Chart Data	
Worcestershire County Council %	10.82%
Median	12.02%
75 th Percentile	14.57%
Worcestershire County Council Actual	£4.10m

Total Planning and Development Services – Sales, Fees and Charges as % of Total Service Expenditure



Ranked **6th** highest of **27** authorities Value = 19.40%

Basic Chart Data

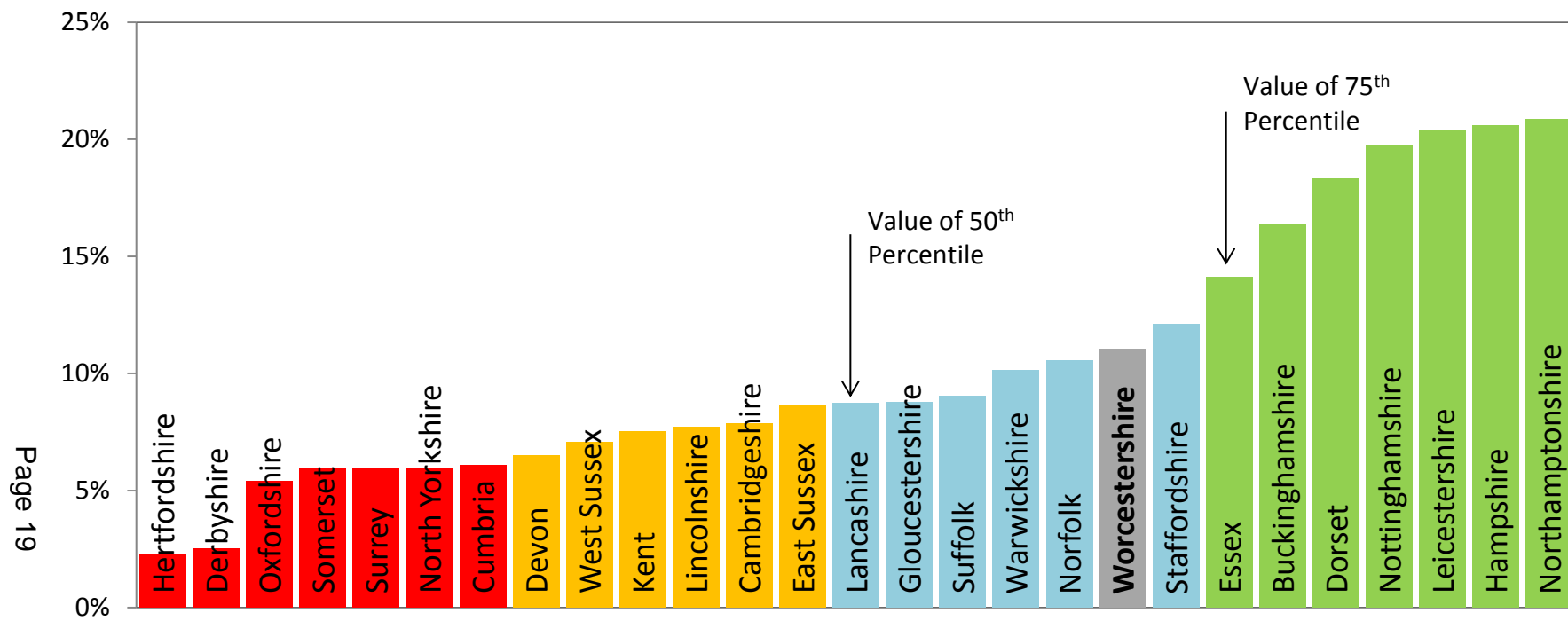
Worcestershire County Council % 19.40%

Median 9.53%

75th Percentile 18.73%

Worcestershire County Council Actual £1.04m

Total Cultural and Related Services – Sales, Fees and Charges as % of Total Service Expenditure

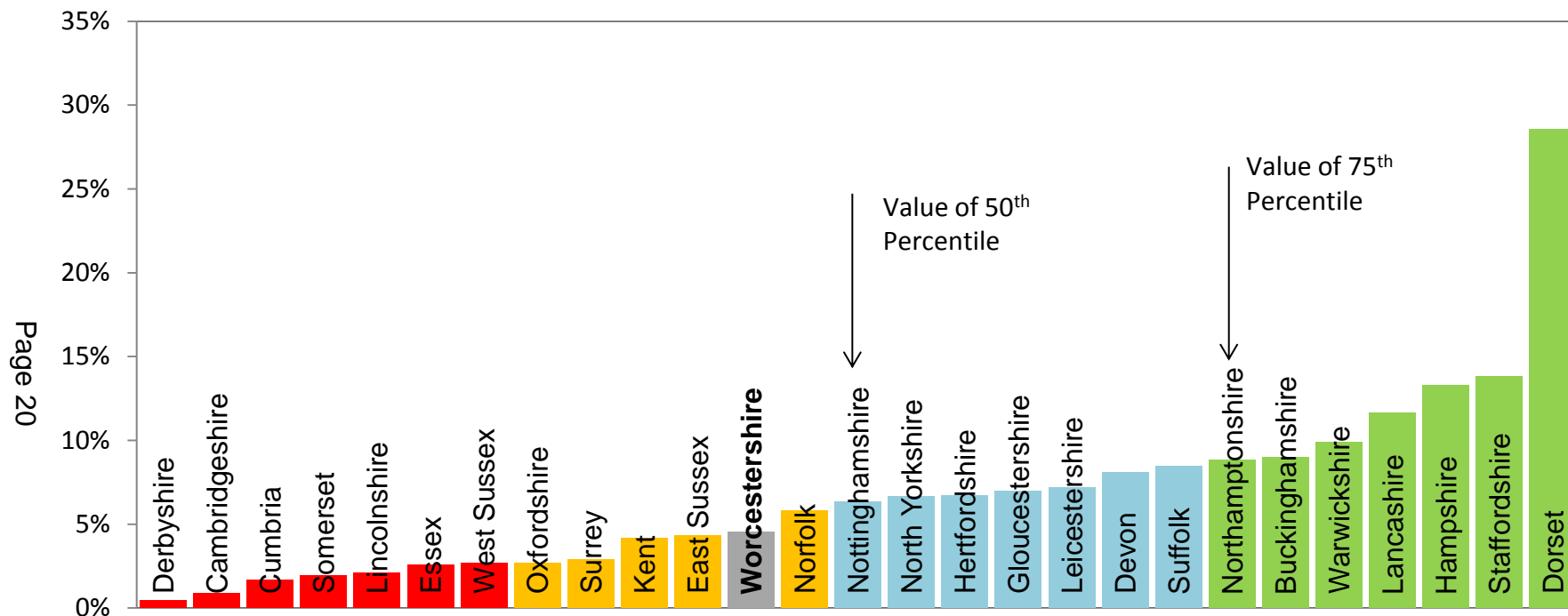


Ranked **9th** highest of **27** authorities Value = 11.03%

Basic Chart Data

Worcestershire County Council %	11.03%
Median	8.73%
75 th Percentile	14.09%
Worcestershire County Council Actual	£1.89m

Total Environmental and Regulatory Services – Sales, Fees and Charges as % of Total Service Expenditure



Ranked **16th** highest of **27** authorities Value = 4.55%

Basic Chart Data

Worcestershire County Council %	4.55%
Median	6.36%
75 th Percentile	8.83%
Worcestershire County Council Actual	£1.90m

Audit and Governance Committee
12 September 2014

7. INTERNAL AUDIT COMMISSIONING UPDATE

Recommendation

Summary

1. **The Chief Financial Officer recommends that the content of the Internal Audit Commissioning update report is noted.**

2. Internal Audit is following Worcestershire County Council's Commissioning Cycle which involves four stages; evaluate, design, source and review.

3. A review into the Internal Audit Service undertaken by PricewaterhouseCoopers LLP (PwC) has informed the Evaluate Quadrant of Worcestershire County Council's Commissioning process. This resulted in a roadmap which helped to transform the service and prepare for the sourcing phase.

4. The Internal Audit commissioning process is on track. The following table shows the latest Future Fit Commissioning Dashboard timetable. The pre-procurement market engagement has now been completed.

Pre-procurement market engagement	February-August 2014
Tender specification development	September-December 2014
Tenders invited	January 2015
Tenders returned	February 2015
Assessment and clarification	March-April 2015
Contract award	May-July 2015
Transition and new state	August-September 2015

5. The Internal Audit Commissioning process is being undertaken in line with the organisation's Commissioning Roadmap and the Chairman and Vice-Chairman of this Committee will be kept informed of its progress and their views will be sought. A further update report will be brought to the next meeting of the Committee on 12 December 2014.

6. The Committee may also wish to consider whether a workshop would be beneficial to capture the thoughts and needs of Committee members around the commissioning process.

7. The Internal Audit specification will be developed for the

Invitation to Tender (ITT) during September and October 2014. This will also be shared with the Chairman and Vice-Chairman of the Committee.

Contact Points

County Council Contact Points

Worcester (01905) 763763, Kidderminster (01562) 822511 or
Minicom: Worcester (01905) 766399

Specific Contact Points

Sean Pearce, Chief Financial Officer
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List of Background Papers

In the opinion of the proper officer (in this case the Director of Resources) there are no background papers relating to the subject matter of this report.

Audit and Governance Committee
12 September 2014**8. INTERNAL AUDIT PROGRESS REPORT 2014/15****Recommendation**

1. **The Chief Financial Officer recommends that the content of the Draft Internal Audit progress report attached as an Appendix be approved.**

Introduction

2. Internal audit has undertaken work in accordance with the 2014/15 Internal Audit Plan which was approved by this Committee at its meeting on 27 June 2014. A draft copy of the progress report for the period 1 April to July 2014 is attached as an Appendix and members are asked to consider approving its content.

Supporting Information

Appendix – Draft Internal Audit Progress Report 2014/15

Contact Points**County Council Contact Points**

Worcester (01905) 763763, Kidderminster (01562) 822511 or
Minicom: Worcester (01905) 766399

Specific Contact Points

Sean Pearce, Head of Corporate Financial Strategy
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**Internal Audit Progress Report
1 April to 31 July 2014**



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1. Introduction

2014/15 Internal Audit Plan

- 1.1. We have undertaken work in accordance with the 2014/15 Internal Audit Plan which was approved by the Audit and Governance Committee at its meeting on 27 June 2014.
- 1.2. An outturn statement detailing assignments undertaken and actual activity for the year is shown in Appendix 1. 529 days out of a total planned 1,800 days (30%) were delivered as at 31 July 2014. The plan includes 280 days for external clients. This is in line with our projected profile and we commit to completing the majority of the remaining work ahead of the year end.
- 1.3. There has been a reduction in available resources due to a Senior Auditor being seconded to work on the new Financial and Business Reporting Information System and an Audit Assistant moving to a 30 hour week.
- 1.4. The reduction in resources has been offset where possible by more efficient working methods and improved performance. There is also an intention to obtain additional resources using the Internal Audit Framework Agreement.
- 1.5. The Audit and Governance Committee has responsibility to review the adequacy of the County Council's internal control and risk management arrangements. Internal Audit is an independent assurance function which provides an objective opinion on the effectiveness of the control environment comprising risk management, control and governance.
- 1.6. Internal Audit meets with individual directors on a regular basis in order to discuss progress and key issues in their respective areas. These meetings are being used to inform the audit plan with regard to the 150 days allocated to directorate risk.

2. Internal audit work completed 1 April to 31 July 2014

- 2.1. Work has been carried out in fulfilling the requirements of providing 'core systems' assurance and increasingly offering a more risk based approach. This work has been reported to management to ensure that individual recommendations are properly considered.
- 2.2. Where appropriate each report is given an overall opinion based on the criteria defined in Appendix 2. The recommendations arising from the individual audit reviews are ranked according to their level of priority also defined in Appendix 2.
- 2.3. There have been 18 reports finalised during the first quarter of 2014/15, of which four have been given limited assurance. These can be summarised as follows:

Table 1 Summary of audit opinions

Overall opinion	2013/14 audit plan work carried forward	Quarter 1 (2014/15)	Total
Full	0	1	1
Significant	2	0	2
Limited	4	0	4
N/A	1	10	11
Total	7	11	18

- 2.4. With regard to the school's Procurement Card audit, one overall report will be issued reflecting the findings across schools; the indicative opinion is significant assurance albeit the overall report has not been finalised. Separate reports were also issued to individual schools containing specific recommendations but without an opinion. In addition to the above, there are a number of reports which have been issued but not finalised:
- Not in Education, Employment or Training (NEETS)
 - Computer Recycling
 - Councillors ICT allowance
 - Public Health Ring Fenced Grant
 - Councillor's Divisional Fund, and
 - Procurement - Street Lighting.
- 2.5. A breakdown of final reports issued can be found in Appendix 3, which summarises the risk ratings associated with each finding and recommendation along with an overall opinion. Further information is provided in the individual reports which can be produced in full if required.
- 2.6. It is essential that audit recommendations are implemented by management within the agreed timescales. All recommendations are routinely followed up with senior management on a quarterly basis to obtain assurance that recommendations were implemented. As requested by the Audit and Governance Committee, the current status of high recommendations is detailed in Appendix 4.
- 2.7. Following the concerns expressed by the Audit and Governance Committee regarding the limited assurance work on disaster recovery, further work has been commissioned from PwC. This work is currently being finalised with management and it is anticipated that there will be a summary of the findings presented to Audit and Governance Committee on 12 September 2014.
- 2.8. Where audits have been given full or significant assurance this is an indication that the Council has sound processes in place.
- 2.9. Further details regarding the 4 limited assurance audits are contained in Appendix 5.
- 2.10. The assurance expressed is at the time of the report being issued but before full implementation of the agreed management action plan. Where a response has been received it is pleasing that management have accepted the recommendations and have indicated an action plan with timescales for implementation where appropriate.
- 2.11. Following recent audits a "Customer Survey" has been issued to relevant managers asking for their views on the delivery of the audit. There are a range of questions covering audit planning, reporting and an overall assessment. It is pleasing that the initial results are very good with an average score of 4.4 (out of a maximum of 5). In addition a number of very positive comments regarding Internal Audit work have been received during the year.
- 2.12. The County Council Audit Network (CCAN), have recently carried out an Internal Audit bench marking exercise. The survey was anonymised and as with any survey it is important to interpret the results with some caution. Nonetheless, it is interesting to compare submissions of 16 other County Council's with Worcestershire County Council. It is pleasing that the comparisons would appear to show that the Council's Internal Audit

to cost effective when compared with other County Councils. This reflects the approach taken over the previous two years to reduce the overall level of staff, improve utilisation and increase output. At the same time feedback from individual clients and senior management would suggest that the quality of output has continued to improve. Included, within these costs is the ability to buy in specialist skills and knowledge. Appendix 6 shows individual outcomes relating to planned days, expenditure, and staffing.

2.13. There is one audit where a response to the draft report has not been received within agreed timescales:

- Future Fit – Benefit Realisation (A management response will be received prior to the Audit and Governance Committee meeting on 12 September 2014).

3. Other significant work

3.1. Internal Audit has also carried out work in a number of other areas during the period ending 31 July 2014 and this is set out below.

National Fraud Initiative

3.2. The National Fraud Initiative (NFI), the Audit Commission's data matching exercise helps the Council fight against fraud. Internal Audit continues to act as the lead co-ordinator. Work is ongoing to ensure that the Council is in a position to be able to upload all of the necessary data to the Audit Commission's secure website on the 6 October in respect of this year's NFI. This time there is a requirement for a new data set to be included, those service users in receipt of a direct payment, in addition to Payroll, Pension, Creditor, Care Home, Blue Badges and Concessionary Travel data. This has highlighted the need to ensure that our Fair Processing Notice is up to date and officers have been reviewing this and updating where necessary. In August all payslips will include a message confirming that payroll data will be shared as part of the NFI process and we will also facilitate the uploading of data held by the Council on behalf of the Hereford and Worcester Fire and Rescue Authority, West Mercia Police and the West Mercia Police and Crime Commissioner.

Information Commissioners Officer - Data Protection audit

3.3. The Council invited the Information Commissioners Office (ICO) in to advise us on data protection areas which will be challenging as we become a strategic commissioning authority. The ICO have identified some areas of good practice but have also raised a number of significant issues in the areas of data protection governance, security of personal data and data sharing which has led to a very limited assurance opinion. The Council is taking actions to address the ICO's recommendations, as part of this process, Internal Audit attend the Corporate Information Governance Board and Corporate Information Governance Group. Internal Audit are also planning an audit to follow up on the implementation of the recommendations (a report will be produced for the Audit and Governance Committee meeting in December 2014) and also some work around data sharing.

Superfast Broadband Project

3.4. Internal Audit has continued to support this project over the last four months, supporting officers in checking the information provided by the contractor so that invoices can be paid. Following the announcement of additional funding Internal Audit will again be supporting the verification process to enable all of the milestones to be achieved.

Grant claims

3.5. A total of 2 grant claims have been reviewed to ensure accuracy and compliance with relevant grant conditions:

- Bus Services Operators Grant (BSOG), and
- Adoption Reform Grant.

Further work was also carried out on the Kidderminster Trust Fund.

Joint Property Vehicle

3.6. Internal Audit is attending regular meetings of the JPV Finance Work group to advise on financial issues and the control framework.

Commissioning – HR/Payroll/Finance/Enterprise Resource Planning (ERP) and Occupational Health

3.7. As a member of the steering group for this project, internal audit has advised on the risks, controls and Key Performance Indicators required once the contract has been awarded, attended workshops where the current main services have been captured to inform the specification as well as challenging the Value for Money of the project.

Audit Commission Survey

3.8. This is an annual survey which is mandatory and contributes to national statistics regarding fraud.

Advice

3.9. This is an important part of Internal Audit's work to ensure that appropriate controls are considered at an early stage. During the first quarter, Internal Audit has advised on a number of areas including:

- **Appointeeships and Deputyships** – the change in the Council's banking contract highlighted an issue at an establishment with how service users' bank accounts were managed which resulted in a recommendation to move them into the control of the central Appointeeships' Team.
- **Pensions, Members Self Service** – ongoing advice regarding the security of the proposed changes.
- **Hartlebury Museum** - advice was sought from Internal Audit around the governance arrangements when applying for external grants and Internal Audit also met with the Museum manager and finance staff to explain the correct procedures that would need to be followed.
- **Schools PFI** - following a request by the head teachers at North Bromsgrove High School and Alvechurch Middle School, internal audit are looking to review the documentation trail around the size of the buildings and the pupil numbers.
- **Freedom of Information requests** - There has been a requirement to both complete and advise on individual requests.

4. Appendix 1: Detailed Audit Plan 2014/15

Area/system	Days	Final report issued	Status/assurance level given
OP1: Core systems reviews – fundamental assurance			
<u>Core financial systems</u>	200		
e.g. General Ledger / Financial accounting			To be agreed.
Debtors			Planned for quarter 4.
Creditor payments			Planned for quarter 3.
Payroll			Planned for quarter 4.
Pensions – administration processes			Planned for quarter 4.
Pension – investment management			Timing of audit work to be agreed.
Pension Governance arrangements			Timing of audit work to be agreed.
Treasury Management			Planned for quarter 3.
Budgetary arrangements			Planned for quarter 3.
VAT			Terms of reference agreed. Fieldwork commenced in July 2014.
Bank Reconciliations			Planned for quarter 4
Fixed Assets			Timing of audit work to be agreed.
National Fraud Initiative	30		Ongoing.

Area/system	Days	Final report issued	Status/assurance level given
Grant certification	30		Ongoing.
OP1: Subtotal	260		
OP2: Audits across the key areas of focus in the Corporate Plan			
Directorate Risks:	150		
➤ Data sharing – Health Visitors			Planned for September.
➤ Daily banking – Audit Banking Log			Report issued.
➤ DASH – Scheme of Accountability			Discussions to agree the terms of reference.
Investigative work	80		Ongoing work.
Intelligence led pro-active fraud investigations	25		Ongoing. Currently at the planning stage of using Fiscal software to analyse key financial data.
Advice	50		Ongoing.
ICT Audits - externally provided as part of the Internal Audit framework agreement.	50		Work due to commence on the four areas of work detailed below:
➤ IT Disaster Recovery Review			Fieldwork commenced in July 2014.
➤ Data Centre Operations and Security			Fieldwork due to commence in August 2014.
➤ IT Risk Diagnostic			Fieldwork due to commence in August 2014.
➤ IT Strategy			Fieldwork commenced in July 2014.

Area/system	Days	Final report issued	Status/assurance level given
Data Information Security	10		Work planned to follow up on the ICO audit report with a view to reporting to Audit and Governance Committee in December 2014.
Computer Recycling	10		Draft report issued.
IT Policy Framework	10		Planned for quarter 3.
Ethical Culture	10		Planned for quarter 3.
Performance Management	15		Planned for quarter 3.
Contract Management	20		Planned for quarter 4.
Commissioning	30		A significant amount of advisory work has already taken place in this area.
Cost of change- redundancy costs.	10		Terms of reference agreed. Fieldwork commenced in July 2014.
Travelling and Subsistence –Employees	25		Fieldwork complete, report being drafted.
Travelling and Subsistence – Councillors	10		Fieldwork completed July 2014.
Councillor ICT arrangements.	5		Draft report issued.
WCDF – Worcestershire Councillor's Divisional Fund	10		Draft report issued.
Flexible and Mobile Environment (FAME) working	20		Planned for quarter 3.

Area/system	Days	Final report issued	Status/assurance level given
Procurement	30		<p>Work is taking place in 4 areas of procurement across directorates:</p> <ul style="list-style-type: none"> ➤ Stop Smoking; ➤ Street Lighting; ➤ Family Conferencing; and ➤ Stronger Families. <p>Draft reports have been issued in respect of stop smoking and street lighting.</p>
Future Fit: Future Operating Model	20		Some initial preparation work carried out, it was agreed with the Chief Executive that the work will be carried out in January 2015.
Joint Property Vehicle (JPV)	30		Ongoing work in this area.
Archaeology	15		Planned for quarter 4.
Registrars	10		Planned for quarter 4.
Governance	15		This work is going to be covered as part of the Internal Audit Framework agreement.
Risk Management	10		Terms of reference agreed, work to be carried out as part of the Internal Audit Framework Agreement.
Audit and Governance Committee training	5		'Effective Audit Committees' – completed May 2014.
General follow up	20		Ongoing.

Area/system	Days	Final report issued	Status/assurance level given
Freedom of Information Requests	15		Planned for quarter 2.
Insurance arrangements - Compliance	5		Planned for quarter 3.
Insurance arrangements – Full systems	10		Planned for quarter 3.
Training and Development	15		Planned for quarter 3.
Use of agency staff	15		Fieldwork in progress.
OP2: Subtotal	755		
OP3: Open for Business			
European Funding	10		Terms of reference agreed.
Local Enterprise Projects	10		Planned for quarter 4.
Growing Places Fund	10		Planned for quarter 4.
Broadband project	20		Ongoing.
Improvement & Efficiency West Midlands (IEWM)	10		To be agreed.
Efficiency Audit	20		Fieldwork complete, draft report being reviewed.
OP3: Subtotal	80		
OP4: Children and Families			

Area/system	Days	Final report issued	Status/assurance level given
Sufficiency of Alternative provision (to ensure sufficient school places for all eligible pupils in the County).	25		Initial discussions to determine terms of reference. Fieldwork planned for quarter 2.
Not in Education, Employment or Training (NEETS).	10		Draft report issued
Safeguarding	30		Discussions have taken place to inform the terms of reference. It is anticipated that the fieldwork will commence in September 2014.
Primary School Sports Grant	15		Planned for quarter 3.
School Themed Audits	100		A themed audit of procurement cards has been completed. 10 individual reports have been completed; the overall report is at draft stage.
Provision of Support Services in Schools.	20		Planned for quarter 3.
OP4: Subtotal	200		
OP5: The Environment			
PFI Waste Contract	20		To be agreed.
Highways Maintenance Contract	30		Planned for quarter 3/4.
Design Services Contract	20		Fieldwork.
Evesham Abbey Bridge	20		Planned for quarter 3.
OP5: Subtotal	90		

Area/system	Days	Final report issued	Status/assurance level given
OP6: Health and Wellbeing			
Direct Payments	20		Planned for quarter 4.
Delayed Transfer of Care	35		Discussions have taken place with the NHS and Council staff to inform the terms of reference. Fieldwork due to commence in September 2014.
Responsibilities for Community Safety	10		Planned for quarter 3.
Public Health Ring Fenced Grant	30		Draft report issued.
Care and Support Planning	20		Internal Audit has signed the Memorandum of Understanding in respect of the Care Bill Implementation Grant 2014/15. Internal Audit have also been made aware of the first stocktake, the purpose of the stocktakes are to help local authorities assess readiness to implement their statutory duties under the Care Bill from April 2015 and to benchmark themselves against their peers. Further audit work is planned for quarter 4.
DASH Savings Plans	20		Terms of reference agreed. Fieldwork due to commence in September 2014.
OP6: Subtotal	135		
TOTAL OP1 to OP6	1520		

5. Appendix 2: Assurance Definitions

Overall Audit Opinion	
Full assurance	Full assurance that the system of internal control meets the organisation's objectives and controls are consistently applied.
Significant assurance	Significant assurance that there is a generally sound system of control designed to meet the organisation's objectives. However, some weaknesses in the design or inconsistent application of controls put the achievement of some objectives at some risk.
Limited assurance	Limited assurance as weaknesses in the design or inconsistent application of controls put the achievement of the organisation's objectives at risk in some of the areas reviewed.
No assurance	No assurance can be given on the system of internal control as weaknesses in the design and/or operation of key control could result or have resulted in failure(s) to achieve the organisation's objectives in the area(s) reviewed.

The recommendations arising from the individual audit reviews are ranked according to their level of priority as follows:

High	This is essential to provide satisfactory control of serious risk(s)
Medium	This is important to provide satisfactory control of risk
Low	This will improve internal control

6. Appendix 3: Summary of Recommendations (final reports only)

Assignment	High	Medium	Low	Total	Overall opinion
Work relating to 2013/14					
Open for Business – Partnership Arrangements	3	6	3	12	Limited
Joint Commissioning Unit – Contract Management (Residential & Nursing Care)	2	4	0	6	Limited
Pension Administration	2	6	0	8	Significant
Future Fit – Benefit Realization	4	1	0	5	Limited
Payroll	0	2	0	2	Significant
Children's Social Care	5	6	2	13	RAG rating
Commissioning of Out of Area and High Cost Placements (Adults)	3	6	2	11	Limited
Total	19	31	7	57	
Work Relating to 2014/15 (QTR 1)					
Business Rates Pool	0	0	1	1	Full
Daily banking – Audit Banking Log	4	3	0	7	RAG rating
School Themed Audits, Individual Procurement Card Audits:					
Fort Royal Community Primary	0	2	2	4	N/A
Birchensale Middle	0	1	1	2	N/A
Alvechurch Middle	0	0	4	4	N/A
Charlford First	0	1	2	3	N/A
North Bromsgrove High	2	2	0	4	N/A
Oldbury Park	3	2	0	5	N/A
Pitmaston	1	4	0	5	N/A

Assignment	High	Medium	Low	Total	Overall opinion
St Andrews	1	2	2	5	N/A
St Clements	1	3	2	6	N/A
Total 2014/15 Quarters 1	12	20	14	46	
Total for period ending 31 July 2015	31	51	21	103	

7. Appendix 4: Follow Up of High Recommendations

Audit	Number of recommendations	Number due to be implemented	Number implemented	Number outstanding more than 2 months	Comments
Partnership Arrangements	3	3	0	3	There were some recommendations that were outstanding from a previous audit. It has been agreed that there will be a follow up in September 2014 with a view to ensuring that the recommendations have been implemented.
Use of External Consultants	7	7	7	0	<p>The Internal Audit report identified compliance issues in some parts of the Council. The issues were principally around the precise manner in which certain contracts were approved and extended and the way these were documented. Since the reports were produced all the issues raised have been addressed by the areas concerned.</p> <p>The report identified in one instance a potential breach of the EU Procurement Directives concerning expenditure of £636,000 over a period of 9 years. In the other two cases that were quoted by the newspaper, they were procured appropriately but were subsequently extended without the appropriate authorisation processes being undertaken. Both assignments have now been completed.</p>
Consultant A	2	2	2	0	As above

Consultant C	3	3	3	0	As above
Consultant E	3	3	3	0	As above
Consultant F	2	2	2	0	As above
Consultant G	3	3	3	0	As above
Consultant H	2	2	2	0	As above
Consultant I	1	1	1	0	As above
Overheads & Recharges	1				RAG Report looking at compilation of sold services budget which has been superseded by the Commissioning processes in place.
Special Education Needs (SEN) Independent Specialist Providers (ISP's)	3 (RAG Rating)	3	3	0	Management Comment: "The high recommendations have been implemented although we have not taken a policy approach given the implementation in September of the new Children and Families Act 2014 and a need for broader policy review in advance of the commissioning of Learning and Achievement through a third party provider. . Our approach has been to manage the risks identified through protocol and practice which are in place as indicated in the report."
Standard of Provision of External Services	1	1	0	1	Management's Response: This has yet to be fully implemented in terms of documentation (i.e. monitoring reports) because it has now been incorporated into team-wide work on the documents used for recording the outcomes of monitoring. The team is developing documentation to ensure consistency across all services. The

					requirements of this recommendation are being taken into account in this development.
IT Disaster Recovery	5	5	3	2	One of the recommendations is nearing completion. Another recommendation is awaiting the commissioning process.
BACS Payment System	2	2	0	0	Upgrade went live 23 February 2014. Still a requirement to obtain an update on testing.
Quality of Care records	3	3	3	0	Amendments to the case file audit process have been further discussed at SMT and DLT. A paper was submitted to DLT on 23 April 2014 with a proposal to develop a process of case audit against professional standards. This has been agreed and will be implemented by September 2014
School Themed Audit – Contract Management (overall report)	9	9	9	0	Management have taken note of the recommendations, and have brought to the attention of schools the key issues raised. Management also recognise that from the perspective of some schools there is still insufficient recognition of the importance of such matters.
Church Hill Middle	1	1	1	0	The recommendation was introduced with immediate effect.
Oak Hill First	4	4	4	0	Appropriate assurance received from the school regarding the implementation of recommendations.
Evesham High	2	2	2	0	One of the recommendations involves going out to tender, Evesham will have a new Head teacher in post from 1 September 2104 and will look at a fresh tender process once he is in post.

Blessed Edward Oldcorne	1	1	1	0	It is the College and Governors' intention to seek a new supplier for the photocopiers under the operating lease procedure when the current contract comes to an end in 2016. If it is cost effective to terminate the lease earlier without significant additional cost then they will do so.
Witton Middle	3	3	3	0	Awaiting further confirmation from school, but initial response to report indicated that all high recommendations were implemented immediately.
Fixed Assets	1	0	0	0	Not yet due to be implemented
Early Help Strategy	4	0	0	0	Not yet due to be implemented
Bishops Wood	4	4	4	0	Management have given assurance that all recommendations have been implemented. Internal Audit is seeking clarification regarding the amount repaid in respect of one of the recommendations.
Safeguarding - Winterbourne House	1	0	0	0	Not yet due to be implemented
Contract Management	2	0	0	0	Not yet due to be implemented
One-time vendors	1	0	0	0	Not yet due to be implemented
Joint Commissioning Unit- Contract	2	0	0	0	Not yet due to be implemented

Management (residential & Nursing Care)					
Pension Administration	2	0	0	0	Not yet due to be implemented
Commissioning of out of Area and high Cost Placements (Adults)	3	0	0	0	Not yet due to be implemented
Creditors	1	0	0	0	Not yet due to be implemented
Local Enterprise Projects	4	1	1	0	Only one recommendation due to be implemented
Infrastructure Fund for the voluntary and Community Sector	1	1	1	0	Assurance from management that recommendation implemented
Write-off Procedures	3	0	0	0	Not yet due to be implemented.
SAP authorisation Follow up	2	0	0	0	Not yet due to be implemented.
Children's Social Care	5	0	0	0	Not yet due to be implemented.
Future Fit -	4	0	0	0	Not yet due to be implemented.

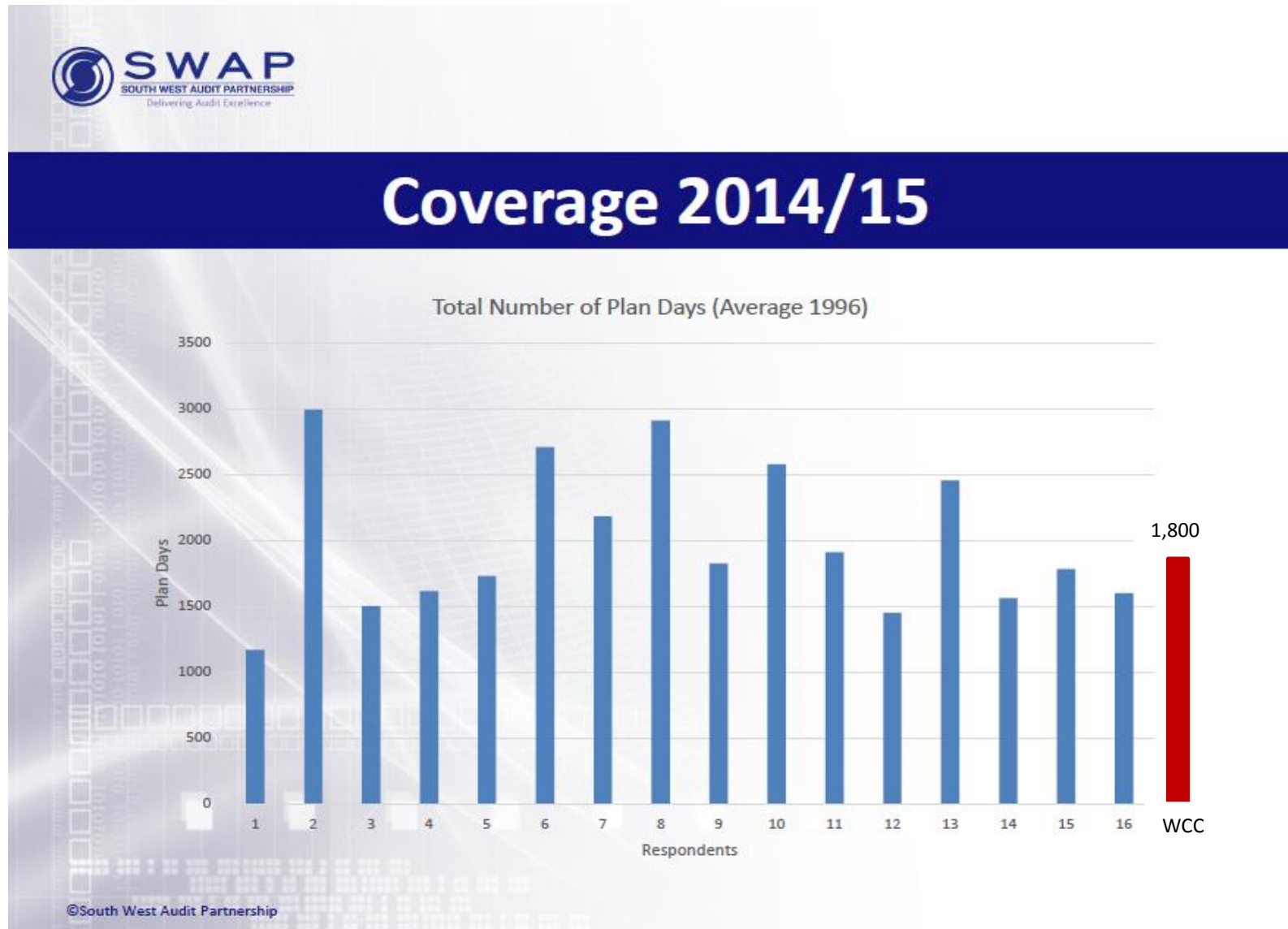
Benefit Realisation					
Debtors	1	0	0	0	Not yet due to be implemented.

8. Appendix 5: Summary of Limited Opinion Audits

8.1. For each of the audits detailed below, management has agreed with Internal Audit the course of action proposed to address the recommendations.

Joint Commissioning Unit – Contract Management (Residential & Nursing Care)	Internal Audit found that there were a number of concerns regarding contractual and monitoring arrangements.
Open for Business – Partnership Arrangements	There is no overall register of partnership arrangements and a lack of clarity around the definition of partnerships. There is also a requirement to develop a partnership policy to provide guidance for officers involved in partnership working. Other recommendations covered risk management and governance arrangements.
Commissioning of Out of Area and High Cost Placements (Adults)	There were a number of issues regarding process documentation, authorisation processes, utilisation of resources, contract and review procedures.
Benefit Realisation	Internal Audit found that there was only limited assurance that the Council could evidence that all the benefits expected from the programmes that it looked at had been documented as delivered. There is an opportunity for programmes to ensure that at the start, consideration is given to how the non-financial outcomes will be measured and then for these to be revisited after the project is delivered to supplement the tracking that is already embedded around the financial savings.

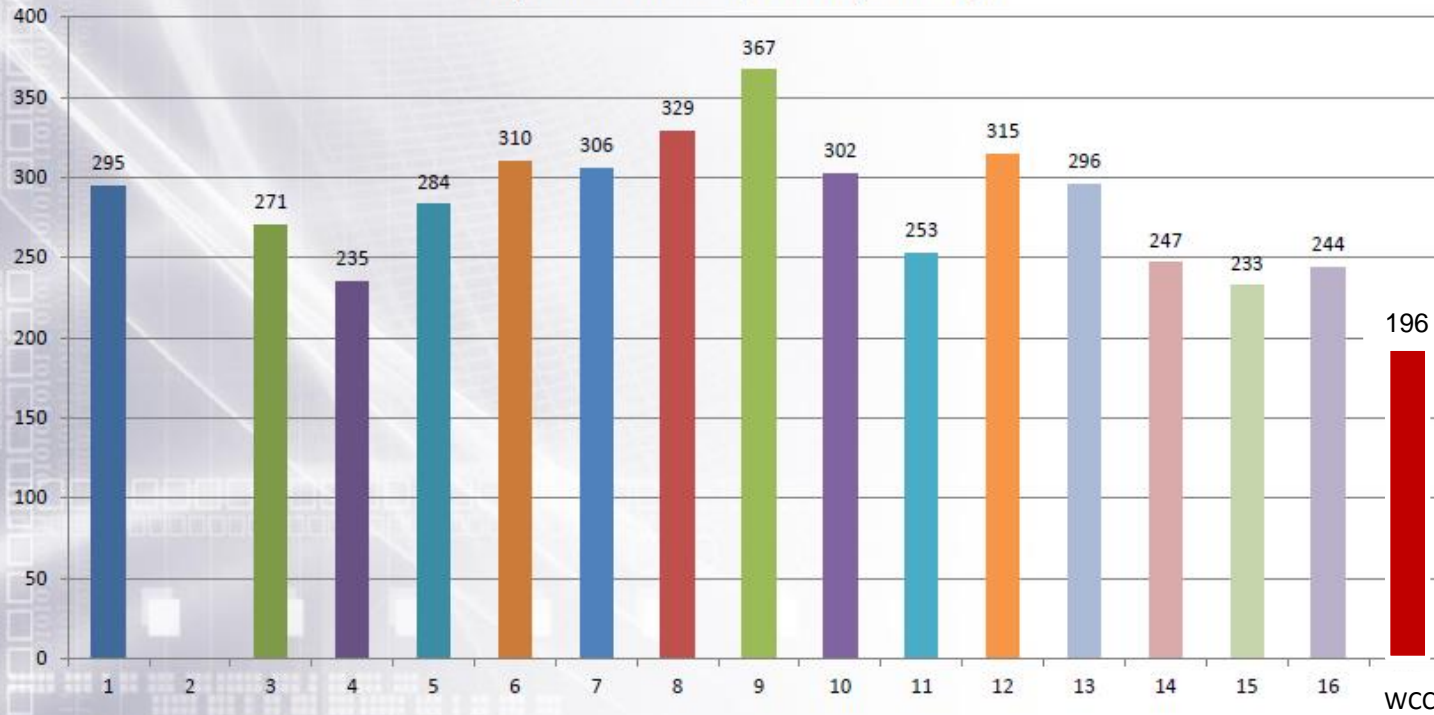
9. Appendix 6: Internal Audit Benchmarking





Expenditure/Days

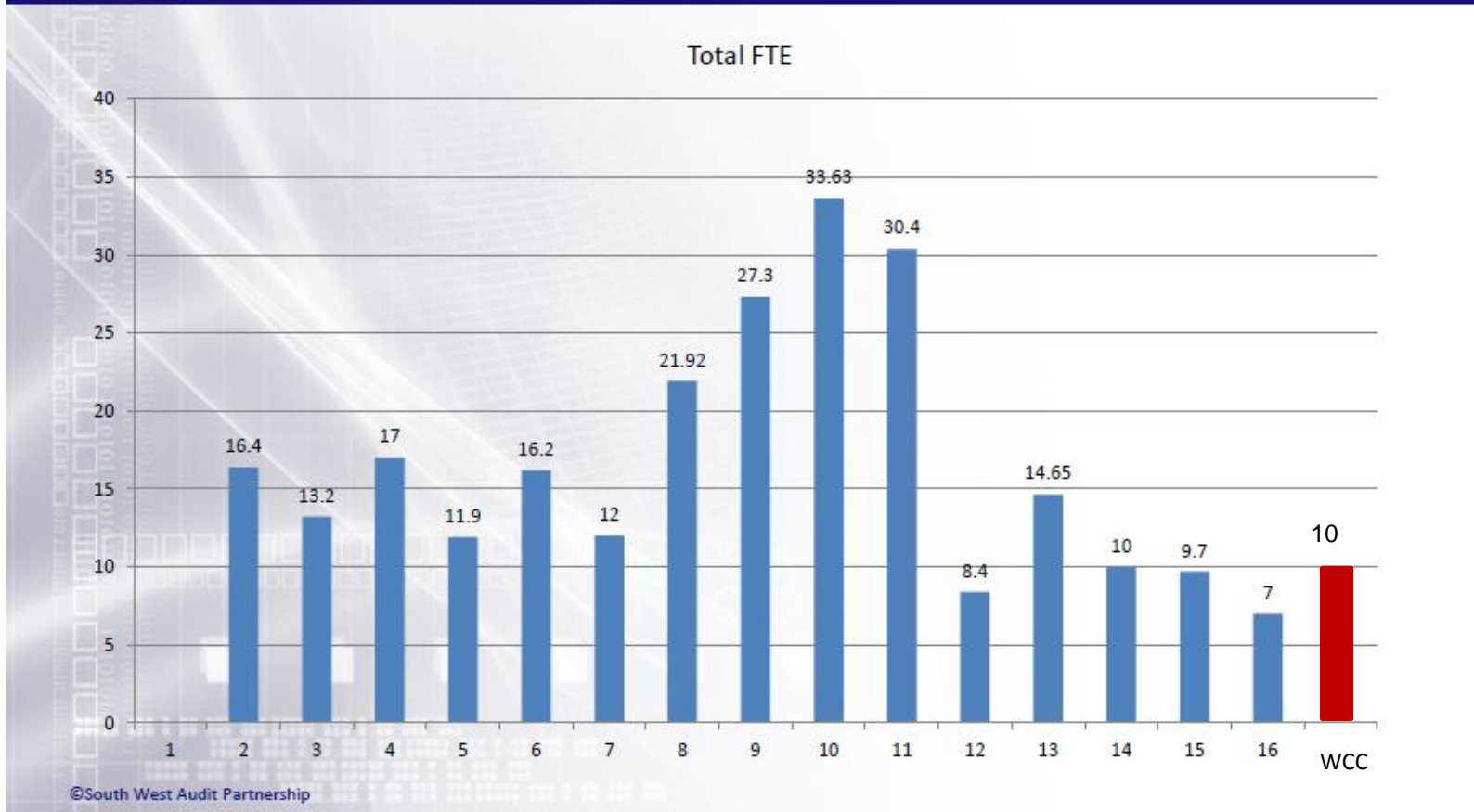
Day Rates - Stated Expenditure/Total Days



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Full Time Equivalents



Audit and Governance Committee
12 September 2014**10. WORK PROGRAMME****Recommendation**

1. **The Committee is asked to note its future work programme and consider whether there are any matters it would wish to be incorporated.**

Background Information

2. In order to allow the Committee to manage its future work programme, a list of anticipated items has been set out below:

12 December 2014

Internal Audit Progress Report 2014/15
External Audit Letter 2013/14
Internal Audit: Counter Fraud report
Risk Management
Internal Audit – Commissioning
Follow up to Information Commissioner’s Office report

20 March 2015

Internal Audit Progress Report 2014/15
Internal Audit Risk Assessment and Draft Plan 2015/16
External Audit Plan 2014/15
External Auditor's Report

26 June 2015

Annual Statutory Financial Statements for the year ending 31 March 2015
Annual Governance Statement
Risk Management
Internal Audit Annual Report 2014/15
Internal Audit Risk Assessment and Plan 2015/16

11 September 2015

Internal Audit Progress Report 2014/15

Other items yet to be timetabled:

Backup and Restore Procedures
Recharging arrangements for services to schools (Minute no. 212 refers)

3. The Committee should consider whether there are any matters it would wish to be incorporated into the above programme.

Contact Points**County Council Contact Points**

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Background Papers

In the opinion of the proper officer (in this case the Director of Resources) the following are the background papers relating to the subject matter of this report:

Agenda and Minutes of this Committee from December 2005 onwards