KPMG

Interim Audit Report

Wiltshire County Council
13 June 2008

AUDIT ▪ TAX ▪ ADVISORY

Content

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Christopher Wilson, who is the engagement partner to the Council, telephone 0118 964 2269, email christopher.wilson@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

This report sets out our key findings following our interim audit at Wiltshire County Council ('the Authority') undertaken in March 2008. Our work considered one of the objectives we are required to review by the Code of Audit Practice. This related to the *Accounts and Annual Governance Statement:* which is concerned with the accounts production process and whether the Authority is sufficiently prepared at this stage of the year to control and produce accurate financial statements.

In summary we found that the Authority demonstrates appropriate readiness for accounts production and preparation of the Annual Governance Statement. During our interim work we did seek to place reliance on Internal Audit's work and a "Joint Protocol" with Internal Audit was established during our planning visit in November 2007. The Joint Protocol set out areas where KPMG would be seeking to place reliance on specific controls. However, at the time of our visit in March 2008 we were unable to place reliance on some of these specific controls set out in our joint protocol. We have discussed our findings on this with management and have agreed a process for moving this forward for the future. We appreciate that a change of external auditors can sometimes requires a 'bedding down' period, as there may be different ways of working. We are continuing to working together with Internal Audit and Finance to ensure the smooth delivery of future audit work. A summary of the issues identified can be found in Section three.

The highlights of our work are summarised below:

Areas of good practice

- good quality system notes which were available via the internal audit files;
- a few areas of internal audit work which had been thoroughly tested;
- good information on the Use of Resources work which was provided by the Finance department;
- good practice seen and compliance with your ICT Infrastructure; and
- good quality information provided on the Authority's governance arrangements.

Areas for development

We are pleased to report that all Authority staff involved during our interim visit were very helpful and the control work we performed demonstrated a sound system of IT and general controls which have been operating effectively during the year.

We have however identified a number of controls where improvements should be made by the Authority. We have set out our recommendations for improving these controls in Appendices A & B. It should be noted that the control points identified during our interim work are categorised as 'priority two' status, which means that they have an important effect on the control environment but no immediate action is required by the Authority. Our control observations are summarised below:

Accounts review

- Review of the debtors ledger to general ledger reconciliations;
- Authorisation of purchase orders;
- Review of monthly accruals;
- Review of bad debt provision; and
- Delivery of internal audit work.

IT review

- Access administration;
- Back up and recovery procedures;
- Passwords;
- Super users; and
- Changes to the IT system.

These points are explained in more detail in Appendices A and B along with our recommendations for improvement.

In addition to our interim work on the Accounts and Annual Governance Statement, we have also undertaken some early work as part of our Use of Resources (UoR) auditor's scored judgments work. We have looked specifically at the Financial Management and Internal Control key lines of enquiry, as these areas are linked to aspects of our accounts audit testing at the interim stage. We are not reporting formally on the findings from this work at this stage, as the Audit Commission's timetable still provides for a single annual audit later in the year. We have however discussed our findings with the Authority informally. We will return to this work later in the year and formulate our UoR scores, at which point we will report our findings to the Authority.

Accounts and Annual Governance Statement

Based on our work in March and on our review of internal audit's work, we concluded that the Council has sufficient processes in place for the production of the financial statements and the Annual Governance Statement. We have raised eleven recommendations of which six relate to Accounts and Internal Audit and are included in Appendix A, and the remaining five recommendations are IT related and form part of Appendix B. None of these issues have been categorised as high risk.

Introduction

To prepare for the audit of your accounts, we carry out a number of tasks to ensure that we are able to fulfil our Code responsibilities whilst ensuring that we work efficiently with you.

Accounts production process

We deploy a seven stage audit process and the tasks we perform are split between those which are undertaken pre, during and post-accounts production. Below are the tasks we have performed pre-accounts production:

Work Performed	Pre-accounts production stage
Task 1. Business Understanding: review your operations.	✓
Task 2. Controls: assess the control framework.	✓
Task 3. PBC: issue our prepared by client request.	✓
Task 4. Accounting standards: agree the impact of any new accounting standards.	✓
Task 5. Production: review the accounts production process.	✓
Task 6. Testing: test and confirm material or significant balances and disclosures.	Not completed at this stage
Task 7. Opinions & representations: seek and provide representations before issuing our opinions.	✓

The results of our work in each of these sections is summarised below:

Task 1. Business Understanding

In our audit plan we identified the following two issues that have an impact on the financial statements:

- compliance with the SORP: we are working with you to ensure that your accounts are fully compliant with any revisions to the SORP.
- Quality and timeliness of accounts and working papers: We are working with you to further refine the efficiency of the accounts preparation and audit process and to meet the 2007/08 timescales.

Task 2. Assessment of the High Level Control Framework

We work with internal audit to assess your high level control framework around the initiation, processing and recording of transactions. Our findings refers to the work that was performed in relation to the Internal Audit Protocol which was agreed with Internal Audit in November 2007. We have summarised the results of our work, split between the main captions in the financial statements below:

Control Area	Number of high level controls				
	…we would expect to be in place	…tested by internal audit	…found to be operating effectively by internal audit	… tested by external audit	…found to be operating effectively
Income and Debtors	3	-	-	3	3
Non-pay expenditure and creditors *	3	1	1	2	2
Payroll and Pension costs *	8	3	3	7	7
Treasury Management and General Ledger	4	4	4	4	3
Asset Management *	6	-	-	To be performed at final, as controls operate once a year	
Financial reporting	3	3	3	3	3
IT General Controls	14	-	-	14	14
Total	**41**	**11**	**11**	**33**	**32**

* This indicates that we will be testing these controls as part of our final accounts audit.

Our interim audit consisted of four main areas, these being Entity level control work, use of resources, controls testing work and IT control work.

From our testing to date we reviewed the following:

- governance arrangements around the Authority;
- review of Financial Management and Internal Control areas of Use of Resources;
- review of internal audit and specific testing on controls; and
- Review of the control environment around IT.

We are pleased to report that all Authority staff involved during our interim visit were very helpful and the control work we performed demonstrated a sound system of controls which have been operating effectively during the year.

We have identified five areas within the accounts area where action is needed to improve controls which are summarised as follows:

- Review of the debtors ledger to general ledger reconciliations;
- Authorisation of purchase orders;
- Review of monthly accruals;
- Review of bad debt provision; and
- Delivery of internal audit work.

The actions required are outlined in recommendations one to five in Appendix A. Our assessment of internal audit is in section three. Five improvement points have been identified surrounding the Authority's IT environment and these are highlighted in Appendix B.

Task 3. Prepared by Client Request

This important document summarises the working papers and other evidence we require you to provide as part of the preparation of the financial statements. We issued this to the Corporate Finance Manager in January 2008 and these were discussed in detail as part of our final accounts preparatory meeting in March 2008. A supplement prepared by client list was issued in March 2008. This has been tailored to reflect the results of our control review and the specific accounting issues identified below.

During our interim review, we have taken the opportunity to meet with the following departments to understand their specific control environment:

- Department of Finance for Education;
- Pensions Department (to discuss FRS 17 and the pension scheme accounts);
- National Fraud Initiative representative;
- Democratic Services; and
- Human Resources.

Task 4. Accounting Standards

We work with you to understand how any changes to accounting standards or in the SORP impact on the financial statements. From a review of the SORP we have identified the following areas that we wish to draw to your attention:

- The replacement of the Capital Financing Account and Fixed Asset Restatement Account with a Capital Adjustment Account and Revaluation Reserve. This is a technical accounting change only;
- The change from requiring the publication of an Statement on Internal Control (SIC) to requiring an Annual Governance Statement. This will need to cover the Authority's performance management issues in addition to the governance and control issues previously disclosed in the SIC; and
- Presentational changes arising from the adoption of a number of new reporting standards relating to financial instruments.

Task 4. Accounting Standards *(continued)*

In addition, we highlight to you a possible prior year adjustment that relates to the PFI scheme which was brought to our attention by the Corporate Finance Manager. We understand that an incorrect amount was booked in the 2006/07 accounts which may need to be adjusted this year. We will need to consider this adjustment and whether a prior year adjustment is appropriate. This work will be performed during the final audit in July 2008.

Task 5. Production

The Authority has put in place appropriate plans for the preparation of final accounts. We have discussed these plans with lead officers and will continue to monitor progress.

The areas which the authority needs to pay particular attention to are:

- ensuring that Authority staff are aware of the KPMG audit dates in July 2008; and

- ensuring that the schedules stated in our prepared by client list are provided to us on the first day of the audit.

Task 7. Opinions and Representations

As part of the audit finalisation process we are required to provide you with representations concerning both our independence and ability to acts as your auditors. You are also required to provide us with representation on specific matters such as your financial standing, whether the transactions within the accounts are legal and unaffected by fraud. We will provide a draft of this representation letter to the Chief Finance Officer during our final audit.

Annual Governance Statement

The Annual Governance Statement (AGS) builds on processes put in place at Wiltshire County Council to produce the Statement on Internal Control. We will perform further work on the AGS at the same time as the final audit.

National Fraud Initiative

We have held discussions with management about the Authority's processes for NFI. We met with the Senior Internal Auditor who is the co-ordinator for the NFI at the Authority. We understand that all the matches have now been investigated and satisfactory explanations were provided to the Audit Commission.

We have reviewed the NFI website and selected a sample of entries to ascertain the nature of the match and how the Authority has investigated these and obtained satisfactory explanations. Total savings of £37,910 have been recovered which have been achieved from:

- payments to care homes for deceased individuals (£21,769);
- payments in respect of deceased pensioners (£2,028);
- un-abated payments to re-employed pensioners (£12,587); and
- duplicated invoice payments (£1,526).

We believe these were due to administrative errors and oversight rather than frauds and these have now been cleared by the Commission. We will perform some further work at our final audit.

Section three
Review of Internal Audit

The Code of Practice for Internal Audit in Local Government (the Code) directs the work of internal auditors. The Code defines the way in which the internal audit service should be established and undertakes its function. The Code is included in the criteria for judgement in the Use of Resources assessment.

A joint protocol was agreed with internal audit in November 2007. This protocol was used as a basis for our audit work and the areas of testing where KPMG could seek reliance on internal audit's work.

The results of our work indicated that in some areas we could not place reliance on internal audit's work as planned. We performed additional testing in order to consider the operating effectiveness of the Authority's control environment and to conclude on a sound system of controls (the table on page 3 summarises the numbers of controls where we were able to rely on internal audit's work and where we had to undertake further testing).

In addition, internal audit were not ready for our visit in March which caused delays in our work as some of the internal audit files were not available at the start of our audit visit or in some cases after a week of chasing.

We have some development points that will need to be addressed by internal audit if the Authority would like us to rely on internal audit's work in the future. In addition, with the move to "One Council" this provides an ideal opportunity for the new Authority to put in place policies, procedures and working practices that they want for its internal auditors.

Our development points can be seen below.

The Standards	Commentary on your internal audit
Scope of internal audit	The scope of internal audit's audit plan for 2007/08, presented to the Final Accounts & Audit Committee in June 2007, is adequate. The plan aims to deliver 1,890 days of productive audit work which includes reviews of core financial systems, operational reviews, schools projects and corporate governance.
Independence	Although there is no formal process for identifying this, the Chief Internal Auditor is not aware of any conflicts of independence between the internal audit team and the Authority.
Ethics for Internal Auditors	Internal audit staff have been made aware of the ethics requirements in the Internal Audit Manual. The performance of auditors in terms of integrity, objectivity, competence and confidentiality are monitored as part of the internal audit's appraisal system.
Final Accounts & Audit Committee	The internal auditors have presented their plan and progress reports against the plan to the Final Accounts & Audit Committee during 2007/08.
Relationships with management, other auditors and other review bodies	Relationships between internal audit and management appear to be co-operative and collaborative.
Staffing, training and development	Internal audit staff training is formalised. A structured training programme including mandatory modules for all auditors as well as supplementary developmental training is provided.
Audit strategy	The audit plan for the year is prepared on a risk based audit approach and linked into their risk management process. The risk information that internal audit takes into account when building their plan is: - The Authority's risk register; - Service plans for each service area with an assessment of the risks facing the delivery of the service; - Discussions with key officers in all departments; and - Internal audit's own knowledge and experience.

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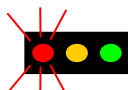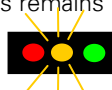| The Standards	Commentary on your internal audit
Undertaking audit work	There is scope for evidence of management of audit assignments to be improved. We found evidence that supervision and review was not always present and documentation was insufficient to allow easy review and re-performance. Where the work of internal audit was relied upon, this required: • Discussions with staff who had performed the work; and • Re-performance of an element of their work. Only then, if satisfactory responses were obtained from internal audit, could we place reliance on certain elements of their work. We also identified that the internal audit manual is out of date. This is an important manual and sets out the quality and standards that internal auditors should be adhering to. The CIPFA Code of Best Practice for internal auditors sets out the requirements for an internal audit manual and the Authority should ensure that this is addressed so that they comply with best practice.
Due professional care	Audit work should be planned and performed in accordance with the risk based strategy which was set by internal audit in their audit plan. However, inspection of audit files did not fully support this. There was little evidence of review of work, and instances were noted where a Senior Auditor had performed the work with no review being performed at all.
Reporting	Progress against the internal auditor's plan is reported to the Final Accounts & Audit Committee. There is scope to improve the timeliness of reporting and to minimise delays between agreeing Terms of Reference for reviews, completion of fieldwork and delivery of final reports. We understand that due to staffing issues within the internal audit department, 83% of their audit plan has been achieved. The internal audit reports we reviewed could provide more information to readers over the work that has been performed and the level of assurance that has been given.
Performance, Quality and Effectiveness	Some of the audit files presented to us by internal audit were poorly referenced and conclusions not always supported by the work on file. In addition, it was difficult at times to reach the same conclusion as internal audit. This was either because documentation was insufficient to support the opinion formed or, in some isolated cases, the opinion reached was inconsistent with the evidence on file. An example of this was where internal audit concluded that a control surrounding reconciliations of control and suspense accounts was operating effectively but where no suspense accounts had actually been tested. There were also examples of testing which had been performed for the wrong financial year.

Appendix A: Accounts recommendations

This appendix summarises our recommendations relating to the accounts production process. We have given each recommendation a risk rating (as explained below) and agreed what action you will need to take with management. We will follow up these recommendations as part of our 2008-09 audit.

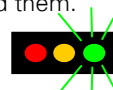| Priority rating for recommendation		
Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	**Priority two**: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	**Priority three**: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue, risk and recommendation	Management response	Officer and due date
1	(two)	**Internal Audit** *Issue* Our review of audit files identified that: - There is a lack of evidence of supervision and review of audit work and reports. - The internal audit reports produced do not always provide sufficient information on the work performed and how conclusions are reached. - Files were poorly referenced and conclusions reached where not always evidenced on or supported by the files. - The internal audit manual is out of date and not followed by the internal audit department. *Risk* There is a risk that controls are not being testing accurately which may undermine the assurances provided to management, the Final Audit & Accounts Committee and external parties regarding the Council's control environment . *Recommendation* A documented review process should be implemented immediately on all audit projects. Best practice working papers need to be produced which are fully cross referenced and support the audit opinion that is provided in internal audit reports. The CIPFA Best Practice for Internal Audit should be adhered to and the internal audit manual should be updated. With the impending changes with the One Council this is an ideal opportunity for the department to update their manual.	Regarding a documented review process and best practice working papers, we have now taken steps to strengthen our evidence of our review process and documentation/working papers to meet this recommendation. With regard to the manual, a new Audit Manual has already been identified as one of the key deliverables within the PID for the relevant work stream under the One Council programme. This will therefore be in place in time for Vesting Day on 1 April 2009	Steve Memmott

No.	Risk	Issue, risk and recommendation	Management response	Officer and due date
2	● (two)	**Raising of purchase orders** *Issue* The various departments have their own separate ordering systems, but there is a lack of control over who can raise a purchase order. *Risk* This could lead to false or inaccurate purchase orders being raised; a potential fraud risk. *Recommendation* The purchase order system should be updated so that only particular authorised people are allowed to raise purchase orders.	Agreed , this will be Resolved with the introduction of SAP on 1.04.09	Sandra Farrington 1 April 2009
3	● (two)	**Year end accruals for ordered goods** *Issue* There is no particular control to identify accruals due to the limitations of the Aptos system. To ensure the balance is not misstated at the year end finance will ask each department to identify items which require an accrual to be made. *Risk* There is a risk that purchases and accruals could be misstated due to the failure to identify liabilities with the Authority. *Recommendation* Departments should keep an up to date listing of items received where no invoice has been received, and use this for reporting to finance at the year end.	Agreed in Principle as this issue will be resolved with the introduction of SAP 1.4.09 Sandra Farrington	Sandra Farrington 1 April 2009
4	● (two)	**Bad debt provision** *Issue* The bad debt provision is based on providing 25% for debtors over 6 months, and 100% for debtors over 2 years. This is calculated by each department and reported to corporate finance. *Risk* The bad debt provision could be incorrectly calculated and debtors and the bad debt expense could be misstated. *Recommendation* Ownership of this provision should be given to finance to either: - ensure the departments' calculations are performed properly; or - performed the calculations independently based on the overall corporate aged debt listing.	We are reviewing the debt management process as part of the SAP implementation work .	Sandra Farrington

No.	Risk	Issue, risk and recommendation	Management response	Officer and due date
5	● (two)	**Reconciliation of the debtors ledger to the general ledger** *Issue* There is no evidence that reconciliations from the debtors ledger to the general ledger are being reviewed other than by the preparer. *Risk* This is a key reconciliation to ensure that the general ledger appropriately reflects the debtors ledger and there is a risk that debtors are not identified. *Recommendation* Evidence by way of a signature on all the reconciliations should be performed by someone more senior in the department.	This will be resolved in the longer-term with the SAP implementation. In the interim we will put in place processes to ensure that the work is reviewed and this is evidenced.	Sandra Farrington

Appendix B: IT recommendations

No.	Risk	Issue, risk and recommendation	Management response	Officer and due date
1	● (two)	**Access administration** *Issue* Human Resources do not have a formal process in place to ensure that timely action is taken on movers' and leavers' accounts in Windows and the in-scope applications. *Risk* Risk of a user gaining access to areas of the application which may lead to inappropriate access to the Authority's financial systems and data. *Recommendation* A formal process should be implemented within the Human Resource Department for the relevant system administrators to be informed of users who have moved job roles or have left the organisation.	Regular audits conducted by ICT Security via assurance checks to ensure that joiners and leavers are correct (this relates to licensing issues). Heard of Operations is sorting this with Human Resources. New user forms required to be developed. This issue has been addressed through the assurance check process.	Chris Christensen
2	● (two)	**Back up and recovery procedures** *Issue* Periodic test restoration of backup tapes is not conducted and a full system restore of the financial systems has never been planned. *Risk* There is a risk of tapes and data being corrupted, causing the Council to be unable to retrieve backed up data. *Recommendation* Test restoration of backup tapes should be carried out on a periodic basis to ensure the integrity of the data contained within, and to ensure that the Authority will be able to conduct a full system restore if necessary.	Known issue. Risk identified. ICT assurance checks. ICT Security managing Steria to complete a 100% server back up routine to test restoration of all servers. Restores can be achieved. Member of staff starts within the next few weeks to complete this task with Steria.	Chris Christensen

No.	Risk	Issue, risk and recommendation	Management response	Officer and due date
		Passwords		
		Issue	The extent of this issue was not known to ICT Security. Issue will be addressed to enforce automatic password changing on all financial systems.	Chris Christensen
		A large number of users have account passwords which are not set to expire, which is contrary to the Global Policy settings within Windows AD.		
		Five of these users are Windows Domain Administrators.		
3	● (two)	*Risk*		
		Weak logical access controls lead to the risk of a user gaining access to areas of the network which may lead to inappropriate access to the Authority's financial systems and data.		
		Recommendation		
		A review of users whose account passwords are set not to expire should be undertaken and their rights within Windows AD modified immediately.		
		Super users		
		Issue	Known issue. ICT Security is managing this in liaison with Steria and has been addressed through the Security Team meeting process and the assurance check process. This will be addressed as a priority task.	Chris Christensen
		A generic user login is used to perform system administrator duties on Cyborg – there are insufficient controls to determine if access to this login is restricted to the right users.		
		The number of domain administrators in Windows AD is exceptionally high. Best practice will also require users to have a non-admin Windows account to perform their day-to-day tasks.		
		The number of super user accounts on Aptos is high, with some users using two super user accounts to perform their daily activities.		
4	● (two)	*Risk*		
		Weak logical access controls lead to the risk of a user gaining access to areas of the network and applications which may lead to inappropriate access to the financial systems and data.		
		Recommendation		
		A review of super users across the network and in-scope applications should be undertaken to determine if the members all require the high level of rights.		
		Super user accounts should be used for administrative duties only, with access to menus and functions being controlled by other user groups instead.		

No.	Risk	Issue, risk and recommendation	Management response	Officer and due date
		Changes to the IT system		
5	● (two)	*Issue* The on-site consultant from the Cyborg supplier has full access to the system's test and live environments – on a recent occasion, we were informed that he implemented a change into live without going through the appropriate authorisation request channels. *Risk* There is a risk of corruption of the Authority's financial systems and data which may lead to disruption of the services. *Recommendation* Access to the live environment for suppliers should be given on a needs-only basis, subject to submission of the appropriate change request form. At all other times, the user account should be disabled.	Known issue. Contract changes required to sort out better more secure arrangements. A delineation of responsibility matrix is required to address boundaries of responsibilities between third parties users and support arrangements through Steria. A formal CAB process exists.	Chris Christensen