

AGENDA SUPPLEMENT (1)

Meeting: Audit
Place: Council Chamber - Council Offices, Monkton Park, Chippenham,
SN15 1ER
Date: Tuesday 17 September 2013
Time: 2.00 pm

The Agenda for the above meeting was published on Monday 9 September 2013 and indicated that the report detailed below at 6 would be to follow. This is now available and is attached to this Agenda Supplement.

In addition, the Chairman has agreed that the reports detailed below at 7a and 7b should be included on the agenda for the Committee to consider as members may wish to ask officers for further information before the next meeting in December 2013.

Please direct any enquiries on this Agenda to Stuart Figini, of Democratic Services, County Hall, Bythesea Road, Trowbridge, direct line (01225) 718376 or email stuart.figini@wiltshire.gov.uk

Press enquiries to Communications on direct lines (01225)713114/713115.

This Agenda and all the documents referred to within it are available on the Council's website at www.wiltshire.gov.uk

- 6 **Price for Certification - Update** *(Pages 1 - 4)*
- 7a **National Fraud Initiative 2012** *(Pages 5 - 14)*
- 7b **Internal Audit Review - KPMG** *(Pages 15 - 28)*
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DATE OF PUBLICATION: 11 September 2013

WILTSHIRE COUNCIL

Audit Committee

Date: 17 September 2013

KPMG INTERIM REPORT 2012-13

Cabinet member: Councillor Stuart Wheeler

Purpose of Report

1. To update the committee on the current position regarding the recommendations in the KPMG Interim Audit 2012-13 report (May 2013) regarding the IT control environment. The report included KPMG's request to see additional certification from a key supplier (CGI, formerly Logica) and recommended improvements in change controls and user account management for a small number of Council IT applications.

Background

2. At its last meeting the Committee received the Interim Audit Report (May 2012/13) from KPMG. The minutes noted that :-

At its meeting on 18th June 2013, the Audit committee asked the Service Director for Business Services to provide an update on this issue at a future meeting. This report updates the committee on the actions taken.

Progress to date

3. Council staff met with KPMG on 31st July 2013 to discuss the new and legacy issues described in the Interim Audit Report and a number of actions and risk-mitigation controls were agreed. The majority of these actions have been completed and are pending final review by KPMG. For those that are still in progress, the relevant resources and required tasks have been identified.
4. KPMG had specifically recommended that Logica should seek compliance with, and certification to, the ISAE3402 standard. The applicability of this standard to the type of services provided by CGI is yet to be confirmed or ratified by KPMG. Wiltshire Council do, however, acknowledge the intention of this recommendation to provide regular, evidence based and auditable assurance of significant controls, by a major supplier.
5. To that effect, the Committee should note that Logica was bought out by the Canadian company CGI in August 2012. As a result of this acquisition, Logica UK (now CGI) has changed its internal procedures and controls to establish compliance with (or alignment to) the requirements of the Sarbanes-Oxley Act 2002. Ernst & Young LLP confirm CGI's Sarbanes-Oxley compliance as set out in their annual report (reports are lodged with the relevant regulator). This provides substantial assurance of effectiveness of their controls.

6. This development, combined with evidence of the Council's contractual right to independently audit CGI will be provided to KPMG with a request for them to consider this evidence as sufficient information to close this issue.
7. The issues around Change Control noted by KPMG in their report were also reviewed and discussed. Recent development work by the Council's IS team in this area was presented during the meeting (it was unavailable or incomplete at the time of audit); KPMG has agreed to provide Wiltshire Council with an independent review of the new overarching IS Change Control procedures and have been provided with a copy of the documentation for consultation. Their comments are still pending, however initial discussions indicated that KPMG is confident that the procedures will meet audit requirements.
8. Information Services staff have successfully sought engagement from Information Assurance (IA) staff to assist with regular, fully independent reviews of powerful SAP user accounts. Procedures have been agreed and are currently being documented. The outputs of these assurance checks are generated, handled and managed solely by IA staff, providing a fully independent cross-check. They are then retained securely for audit review. The Council's Head of Governance has agreed that these assurance checks will be included in the Assurance Catalogue.

Financial implications

9. There are no financial implications arising from this report.

Risk Assessment

10. The production of the Annual Governance is a statutory requirement. Ongoing review of the effectiveness of the Council's governance arrangements is an important part of the Council's risk management strategy. The review of the council's IT systems forms part of that assurance process.

Environmental Impact

11. There is no environmental impact arising from the proposals in this report.

Equality and Diversity Impact

12. There are no equality and diversity issues arising from this report.

Conclusions

13. The Information Services team will continue to work very closely with KPMG and have welcomed the recent discussions which have enabled us to reach a more effective working relationship.

Key procedures within Information Services will benefit from direct consultation and review by the KPMG Audit team.

14. Ongoing development of strengthened mitigating controls (including new processes and policies within Information Services, as well as engagement with the Council's Information Assurance team to provide independent reviews of powerful access), combined with an improved understanding of key supplier operations, has resulted in the Council and KPMG agreeing to remove the majority of the 'previous-year' finding from the next Interim Audit Report.

Proposal

15. To note that the requirement identified by KPMG for CGI to obtain certification to ISAE3402 has been successfully mitigated through the ongoing approach outlined in section 2 of this report.
16. To note and agree that KPMG may provide us with feedback and consultation on key Information Services procedures to ensure they support audit objectives.

Jacqui White
Service Director Business Services

REPORT AUTHORS

Jacqui White – Service Director Business Services
Andy Spurway – Interim Head of IS
Stuart Honeyball – Application Support Manager SAP

Date of report: 02 September 2013

Background Papers: Interim report KPMG 2012-13

Appendices: None

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WILTSHIRE COUNCIL

Audit Committee

Date: 17 September 2013

NATIONAL FRAUD INITIATIVE 2012 REPORT

Cabinet member: Councillor Richard Tonge

Purpose of Report

The purpose of this report is twofold:-

1. To brief members' on the requirements and work carried out in relation to the Audit Commission's National Fraud Initiative (NFI) data matching exercise 2012/13.
2. To provide members with an updated position statement as at August 2013 on the council's progress in resolving matches resulting from the NFI.

Background

3. Since 1996 the Audit Commission has been operating the National Fraud Initiative (NFI), an exercise that matches electronic data held within and between audited public bodies to prevent and detect fraud. Since its commencement, NFI exercises have resulted in the detection and prevention of more than £939 million of fraud and overpayments across the UK.
4. The council's arrangements for prevention and detection of fraud are a core element of good corporate governance. Participation in the NFI supports the Corporate Plan priority of delivering excellent services, by improving value for money and internal control arrangements which impact upon how well the council is managed.
5. The value to the council of the NFI, in addition to the identification and recovery of both fraud and error, is in its role as a deterrent for fraud and as a measure of assurance that adequate system controls are in place to prevent and detect fraud or loss.
6. Local authorities are required by law to participate in the NFI by providing a range of datasets to the Audit Commission for matching. The main NFI data matching is undertaken every two years, the results of these matches is fed into a national report at the end of each cycle. Past reports can be found at <http://www.audit-commission.gov.uk/national-fraud-initiative/nfi-reports/>
7. Historically, the council's audit team held responsibility for managing the NFI, this was devolved in 2012 to the Benefit and Investigations Team when the council's audit function was transferred to South West Audit Partnership Ltd

(SWAP). It is envisaged that the Councils newly established corporate fraud team will take over responsibility for the NFI as part of its wider role of managing the fraud and corruption risk across all services.

8. It should be noted that the NFI will continue following the planned abolition of the Audit Commission. The Local Audit and Accountability Bill 2013-14 makes provision for the future arrangements for the NFI. The bill transfers the Commission's current data-matching powers to the Secretary of State, who in practice will delegate them to a new operational owner of the NFI.

NFI 2012 – Methodology

9. The legitimate use of personal data in this initiative is covered by the Data Protection Act and as such there are requirements to explain to individuals providing this information that their data will be used for the prevention and detection of fraud.
10. To satisfy the data protection requirements the council has included 'fair processing notices' on application forms, letters and bills, identifying the further information available, including that held on the council's website with links to the detailed notice on the Audit Commission's website.
11. The requisite data was extracted from the council's information systems in October 2012 and, following integrity checks, transferred to the Audit Commission through a secure dedicated website (password protected and encrypted). Results of the data matching were subsequently transmitted to all participating bodies through the same website.
12. The following data sets were submitted by the council:-
 - Housing Benefit
 - Concessionary Travel
 - Blue Badges
 - Pensions
 - Payroll
 - Accounts Payable (creditors history & creditors standing)
 - Care Homes
 - Housing (housing tenants & right to buy)
 - Residential parking permits
 - Licensing (Personal alcohol licences, market traders & taxi licences)
13. A total of 25,679 matches have been returned, of these, 16,517 are trade creditor matches and 3,831 are deceased matches. Applying the NFI recommended filters 5,585 of matches' were identified as priority for investigation.
14. As in prior exercises, once the output was received from the Audit Commission the council is responsible for investigating the recommended matches generated from the exercise.

15. The council's approach to resolving the recommended matches has been to appoint a manager from each of the relevant service areas to oversee a thorough and effective investigation of key matches, this includes:-
 - Following up data matches promptly
 - Ensuring staff are fully trained and confident in resolving matches
 - Recovering overpaid funds
 - Reviewing effectiveness of internal controls
 - Identifying risks
 - Undertaking criminal proceedings in the event of fraud (if appropriate)
 - Ensuring the outcome of investigations are accurately recorded via the secure website in accordance with audit commission's instructions and recommended timetable.
16. Managers responsible for data matches have access to additional support and advice from the council's Fraud Investigation Team.
17. Full details of the NFI instructions and requirements can be found at :-
<http://www.audit-commission.gov.uk/national-fraud-initiative/public-sector/local-government/>

Findings

18. Appendix A to this report contains a summary of matches and findings to date, although the picture is likely to change as outstanding investigations are progressed.
19. At the 30th August 2013 the council has processed in excess of 4000 matches and identified overpayment totalling £31,673. Recovery action has commenced in respect of all money overpaid with in excess of £4,000 recovered as at the end of August this year. The council will continue to vigorously pursue overpaid money using the full range of recovery methods at its disposal.
20. The matching exercise has also been instrumental in identifying system anomalies and is likely to drive reviews of some internal controls.

Next Steps

21. The remaining recommended matches will continue to be investigated and a further review will be undertaken by the Service Director, Finance at the end of October 2013. The review will include an evaluation of lessons learnt and if appropriate recommendations for strengthening internal controls.
22. The council has established a dedicated team to improve its resilience and capability against fraud and corruption. The councils newly established corporate fraud team will draw on any lessons learnt from the NFI to support the councils strategic approach for managing the fraud risks and achieving savings across all services.

Consultation and Communication

23. The council has included 'Fair processing notices' on application forms, letters and bills, identifying the further information available, including that held on the council's website with links to the detailed notice on the Audit Commission's website.

Environmental and climate change considerations

24. None

Equalities Impact

25. There are no direct implications arising from this report.

Risk Assessment

26. This work supports the risks identified in the Authority's Risk Register specifically to reduce fraud and corruption to an absolute minimum.
27. Participation is mandatory, failure to do so may result in fraud and error going undetected. There would also be a risk of an adverse opinion being given by the external auditors on the council's corporate governance arrangements.

Financial Implications

28. The NFI is run over a two year period and the fee charged for participation, £2,300, is invoiced equally over the relevant financial years (i.e. 2012/13 and 2013/14). This fee along with the internal resource to investigate the matches is provided for within existing budgets.
29. Recovery of amounts arising from fraud and error reduce the net cost of operations to the council and make financial resources available to invest in other services or minimise Council Tax increases.
30. The total value of fraud and error identified in the 2012/13 NFI to 30th August 2013 is £31,673 this figure is likely to increase as a number of ongoing investigations reach conclusion over the coming months.

Legal Implications

31. Participation in the 2012 data matching exercise is mandatory, as regulated by the powers in the Audit Commission Act 1998, Part 2A.

Michael Hudson
Service Director, Finance

REPORT AUTHOR

Date of report:

Background Papers

Appendix A – NFI Summary report as at 30 August 2013

National Fraud Initiative 2012/13 – Update 21/08/13

Pensions

Match reports - 3 reports, high quality matches. 111 recommended by NFI to be prioritised for investigation, including 29 deceased matches. (423 matches in total).

Overpayments of £17,127.27 recorded so far.

135 Processed, 61 in progress which could result in further savings.

Payroll

Match reports - 7 reports, including payroll to payroll, payroll to creditors, payroll to UK visas, 38 recommended by NFI to be prioritised for investigation. (157 matches in total)

22 processed, 49 in progress, 30 Payroll to creditors – awaiting Creditors.

Care Homes

Match reports – 1 report, high quality matches. 7 recommended by NFI to be prioritised for investigation all deceased matches. (158 matches in total).

All 7 recommended matches processed. 6 closed as already known, 1 closed as no issue, as customer has been confirmed as alive and well.

Blue Badges

Match reports - 3 reports, initially 1,532 recommended by NFI to be prioritised for investigation, including 1,522 deceased matches. (1,743 matches in total). A further 9 were released to the website by NFI on 09/08/13.

1,740 have been processed, with a further 3 in progress and 9 to be sifted. No monetary savings have been recorded for the Blue Badges alone.

One customer had both a Blue Badge and care package from Wiltshire Council even though she lives over the border in Hampshire. As a result of NFI, her Blue Badge has been cancelled as has the care package that she was receiving from Wiltshire. The care package was provided by Wiltshire as she was registered with a Wiltshire GP and the neighbourhood nursing team were also involved. The boundary line between Wiltshire and Hampshire runs in-between her house and her neighbour. Care was provided by Aster Living from 17/04/13 until 05/06/2013 at a cost of £397.25. Hampshire took over the care from 06/06/13.

Accounts Payable

*Match reports - **Creditors History*** – 7 reports (all high quality), 2 of which are key reports. Includes duplicate records by reference amounts and creditor reference (1,343 recommended by NFI to be prioritised for investigation). Value of each duplicate record are between £100 - £500k. Overpaid VAT 661 recommended by NFI to be prioritised for investigation. (15,763 matches in total)

1,395 processed, 30 in progress, no overpayments recorded.

Creditors Standing – 3 reports, all high quality, 754 recommended by NFI to be prioritised for investigation. (754 matches in total)

83 processed, 1 in progress, no overpayments recorded.

Concessionary Travel Pass

Match reports - 1 report, 1,831 recommended by NFI to be prioritised for investigation, all deceased matches (1,831 matches in total)

394 are complete, 1,196 are in progress, 279 errors have been identified

An initial review of the matches against the concessionary travel system resolved 382 matches where the death had been notified to the council. An internal data matching between the NFI matched results and council tax records was exercised. Of the 1452 records, 950 were matched confirming that those passes should be cancelled. The remaining 502 did not match for varying reasons.

Further verification with Revs & Bens system.

One case has been referred (not part of NFI) and investigated after contact made with this team as a result a pass was not issued and a report made to DVLA.

Housing

Housing Rents

Match reports - 4 reports, 1 key. 9 recommended by NFI to be prioritised for investigation. (13 matches in total)

All recommended matches have been processed.

Right to Buy

Match reports - 3 reports, 1 key. 4 recommended by NFI to be prioritised for investigation (8 matches in total)

All recommended matches have been processed.

Housing Benefit

Match reports - 45 reports in total, 16 high quality, 5 key reports. 714 recommended by NFI to be prioritised for investigation. 644 processed, 131 in progress, all recommended matches sifted (4,849 matches in total).

Overpayment of £14,545.93 identified to date, 6 errors. To date 32 fraud investigations opened as a result of NFI 2012/13, (9 closed no result, 4 result, 8 pending and 11 open cases).

Residential Parking Permits

As a result of the additional screening carried out by NFI, a Resident Parking Permit to DWP Deceased match has recently been produced on the NFI website. There are 17 matches in all, 14 of which have been recommended for further investigation by NFI.

Summary

Processed : 4445

Investigating : 1470

Frauds : 0

Errors : 286

Total : £31,673.20

Recovering : 1

Recovering : £3,488.44

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cutting through complexity

Wiltshire Council

Review of Internal Audit Function

June 2013

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Agenda Item 7b

The contacts at KPMG in connection with this report are:

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1. Areas of Partial Compliance	
2. Analysis of Compliance	

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 which is available on the Audit Commission's website at www.auditcommission.gov.uk.

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 Chris Wilson, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to 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 Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

We have reviewed the way in which SWAP undertakes internal audit work and assessed it against the eleven areas of the *CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006)*.

Background & Information

South West Audit Partnership (SWAP) was formed in April 2005 to provide Internal Audit services to public sector clients within the South West of England. It currently provides such services to eleven local authorities throughout the region, including Wiltshire Council (the Authority).

Internal Audit is essential in providing an independent and objective opinion to the Authority on the control environment comprising risk management, control and governance by evaluating the Authority's effectiveness in achieving its objectives. An effective Internal Audit function enables the Authority to make informed decisions as to improvements required to the control environment. It also assists in the Audit Committee's responsibility to ensure that a sound system of control is in operation.

In addition to providing assurance that risks are being adequately controlled, there is an expectation that internal audit will add value to the Authority and help to ensure that there are processes in place to meet strategic targets.

In order to ensure that the provision of Internal Audit is of a satisfactory quality, external standards have been developed which outline the way in which such services should be planned, managed and delivered. These standards help to ensure that the Internal Audit function meets the needs of clients, their expectations, and the demands of ethical requirements.

During the 2012/13 year, and previous years, the standards applicable to public sector entities were contained in sector specific guidance. In relation to local government, this was CIPFA's *Code of Practice for Internal Audit in Local Government in the UK (2006)*.

As of 1 April 2013 this was replaced with the *Public Sector Internal Audit Standards* (PSIAS) which are based upon the *International Standards for the Professional Practice of Internal Auditing* developed by the Chartered Institute of Internal Auditors. This new set of standards applies to all public sector organisations, regardless of sector boundaries.

Scope & Objectives

We have reviewed the way in which SWAP undertakes internal audit work and its interactions with the Authority, in order to comply with the requirements of the *CIPFA Code of Practice* in relation to the eleven areas outlined below:

1. Scope of Internal Audit
2. Independence
3. Ethics for Internal Auditors
4. Audit Committees
5. Relationships
6. Staffing, Training, & Professional Development
7. Audit Strategy & Planning
8. Undertaking Audit Work
9. Due Professional Care
10. Reporting
11. Performance, Quality, & Effectiveness

Our review was undertaken specifically in relation to the work of SWAP for the Authority during 2012/13. As a result of this, compliance with the PSIAS has not been considered and this review does not represent an 'external assessment' as required by the PSIAS over a five year cycle.

SWAP has, however, undertaken an independently verified self assessment against these new standards which indicated that whilst there were some areas for improvement, compliance had generally been achieved. We have not verified the results of this exercise. In addition, where improvements were identified as a result of that review but have not been mentioned in this report, no assurance should be taken as to whether or not such improvements have been implemented.

We have reviewed the processes implemented by SWAP and assessed their compliance with the *CIPFA Code of Practice*.

We have not undertaken any work in relation to SWAP's compliance with the *Public Sector Internal Audit Standards*.

Audit Approach

The objective of the review was to ensure that the methodologies and practices adopted by SWAP provide the Authority with an internal audit service which complied with the *CIPFA Code of Practice* requirements.

Our work involved assessing the design of those controls and processes which SWAP has implemented in relation to the overarching governance arrangements. We reviewed a significant amount of supporting documentation and evidence provided by SWAP. We also selected a sample of Internal Audit reviews undertaken by SWAP during 2012/13 in order to assess the level of compliance in relation to specific areas of work completed.

As stated on the previous page, we have not undertaken any work in relation to SWAP's compliance with the newly implemented *PSIAS*. In practice many of the requirements will be similar. Despite this, compliance with the *CIPFA Code of Practice* should not be seen as guaranteeing compliance with the *PSIAS*.

Our testing indicates that in general the activities of SWAP complied with the requirements of the CIPFA Code of Practice.

We identified no areas of non-compliance. There were, however, a limited number of areas of partial compliance.

Conclusions

Our work identified no areas of non-compliance with the CIPFA Code of Practice. Whilst we identified a limited number of areas where there was scope for further improvements, none of these were indicative of major failings in SWAP's methodologies and processes.

As a result of this, we have concluded that the activities of SWAP generally complied with the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).

Further details on our findings are provided on pages 5-8 of this report. In addition, we have outlined those areas which we identified partial compliance in **Appendix 1**.

Whilst the CIPFA Code of Practice is no longer applicable, the resolution of the areas of partial compliance should help ensure that the requirements of the PSIAS are met and will also ensure that SWAP provides a high quality service to the Authority.

Overall Compliance Analysis

Sub Heading	No of standards assessed	Compliant	Partially Compliant	Non-Compliant	Coverage in this Report	
					Overarching Governance (pages 5-7)	Detailed reviews (page 8)
1. Scope of Internal Audit	8	8	-	-	✓	
2. Independence	9	9	-	-	✓	
3. Ethics for Internal Auditors	8	8	-	-	✓	
4. Audit Committees	6	5	1	-	✓	
5. Relationships	10	8	2	-	✓	
6. Staffing, Training & Professional Development	7	7	-	-	✓	
7. Audit Strategy & Planning	10	10	-	-	✓	
8. Undertaking Audit Work	11	10	1	-		✓
9. Due Professional Care	3	3	-	-	✓	
10. Reporting	19	19				✓
11. Performance, Quality, & Effectiveness	13	12	1	-	✓	
Total	103	99	4	-		

SWAP has developed an Internal Audit Charter which acts as a Terms of Reference and sets out the key elements of the relationship with the Authority.

SWAP's legal structure, in addition to the controls which have been internally implemented, help to minimise the risk in relation to independence.

All audit staff are required to comply with the Institute of Internal Auditor's Ethics Code and sign an annual declaration of compliance.

Scope of Internal Audit

SWAP has implemented a formal Internal Audit Charter which has been approved by both Wiltshire Council's Audit Committee and full Council. This document clearly sets out the roles and responsibilities relating to the Internal Audit service and how they are shared between the Authority and SWAP.

The Internal Audit Charter is designed to be reviewed on an annual basis, with input being provided by the Head of Internal Audit as to the need to make amendments. To this end, it is periodically included within the quarterly update reports which are presented by SWAP to the Authority's Audit Committee.

One area of potential risk in relation to the provision of Internal Audit services is the adequacy of skills and resources when delivering consultancy work. The Internal Audit Charter clearly states that consultancy work will only be accepted by SWAP when it is satisfied that it has the necessary skills and resources to deliver the specific work in question.

SWAP has also developed a documented audit planning process in relation to the formulation of the Annual Audit Plan. This process requires that the risks identified by the Authority, as well as any emerging risks, be considered when developing the audit plan for any given year.

Independence

SWAP's existence as a separate legal entity helps to reduce the independence risks that are encountered in relation to in-house Internal Audit provision. Such risks are further combated through the controls which SWAP has implemented, including annual declarations of interests for all staff and a register of hospitality and gifts received.

During the course of its work, SWAP may provide advice to the Authority as to the development of systems, processes or policies.

However, such advice does not extend to the actual development of systems. We identified no issues in relation to advice provided by SWAP.

Under the Internal Audit Charter, SWAP has direct and unrestricted access to key officers and Members. This is in addition to the general process whereby reports are provided to the Director of Finance and the Audit Committee. Access to such individuals is essential to ensuring that SWAP can adequately address any issues and risks identified as a result of its work.

Ethics for Internal Auditors

All staff are required to sign an annual Declaration of Independence & Ethical Behaviour. This sets out the key elements of those ethical codes governing the work of SWAP and serves to remind staff of the importance of adhering to their requirements. In addition, all new employees are provided with induction training which includes a session on the code of ethics published by the Institute of Internal Auditors. All SWAP staff are members of this body and are therefore bound by its ethical code.

Auditor objectivity, both perceived and actual, is protected through the requirement that any and all gifts received are disclosed and recorded. Where necessary, approval will be required prior to the gift being accepted. Further protection is also provided through the requirement that no auditor works on an area where they have held an operational role within the last year.

Briefings provided to auditors in relation to each review to be undertaken, in addition to testing and information recorded in SWAP's audit Software (MKI), help to ensure that work is undertaken in a competent and efficient manner.

In relation to confidentiality, SWAP has developed an Data Sharing Protocol which sets out the instances in which it would be permissible to share Authority data.

SWAP's interactions with the Authority's Audit Committee generally meet the requirements of the CIPFA Code of Practice. Despite this improvements could be made by formalising the access to private sessions with the Audit Committee.

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There is currently no formally documented approach setting out how SWAP will work alongside regulators.

Timing of Internal Audit work has generally met the needs of External Audit, with one exception, and thereby helped to reduce the needs for duplication of work.

Audit Committees

The Authority has its own Audit Committee to which both Internal and External Audit report. From our observations at Audit Committee meetings, and discussions with relevant individuals, we have identified no issues in relation to the effectiveness of the working relationship between SWAP and the Audit Committee.

SWAP's annual audit plan is approved by the Audit Committee, and quarterly updates are provided to the committee in relation to the delivery of the plan. The Audit Committee also receives the Annual Internal Audit Report.

At current, the Internal Audit Charter does not state that the Head of Internal Audit has the right to meet with the Audit Committee in private. Whilst we feel that any such request would be accepted by the Audit Committee it would be beneficial to clarify this formally within the Internal Audit Charter when it is next revised.

Relationships

SWAP has developed formalised working relationships both within the Authority (governed by the Internal Audit Charter) and with ourselves as External Auditors (governed by a formal protocol agreement). There is, however, no formal documentation as to how SWAP will work with regulators and other external agencies. In relation to such entities the agreement of formal protocols may not be feasible. In such instances, despite this SWAP's approach to such relationships should be clearly documented.

In relation to its work with External Audit, SWAP has ensured that work is mostly available on a timely basis so as to avoid any duplication of work, thereby reducing the impact on client staff. We identified one where this had not been achieved, namely the completion of general IT control testing relating to the SAP database.

We identified no issues in relation to the quality of relationships with the Authority (both officers and members), External Audit, or regulators.

Staffing, Training & Professional Development

SWAP staff are all members of the Institute of Internal Auditors and meet the Continued Professional Development requirements of that body. In addition, many of the staff currently employed by SWAP have joined the organisation through a TUPE process from partner authorities. This has helped to ensure that staff have the necessary knowledge and experience to provide Internal Audit services to local authorities.

We have confirmed that job descriptions are in place for all major job types and that these are updated on a regular basis. Where a more specific role is to be filled a specific person specification would be developed as part of the recruitment process.

SWAP has implemented a competencies matrix which identifies the skills required for each of the staff grades currently in operation. This is used as the basis for staff self-assessments and feeds into the personal development plans for each member of staff. These plans are designed to ensure that relevant training needs are met so that the required competencies are delivered.

Audit Strategy & Planning

SWAP developed an Annual Audit Plan for 2012/13 which was approved by the Audit Committee on 20 June 2012. This plan identified the individual reviews which were to be undertaken, the relevant risks, and the specific drivers behind each review. Delivery of the plan is monitored and reported to the Audit Committee on a quarterly basis. Whilst there have been a number of changes to the plan during the year, the Audit Committee has been kept fully informed throughout the year of such changes.

In addition to the Annual Audit Plan, SWAP has developed a formalised Business Plan which outlines its aims and objectives going forward, along with how it intends to deliver these objectives. Due to the separate legal nature of SWAP, this has not been subject to approval by the Authority's Audit Committee. It has, however, been appropriately approved within SWAP.

The need to exercise due professional care is reiterated through the Declaration of Independence & Ethical Behaviour.

Whilst SWAP has developed an Audit Manual, this is undergoing review and development in order to ensure that it provides necessary information to auditors and is fully available, including incorporation within the MKI system.

The quality of work is monitored through both an internal review process and regular external review undertaken in partnership with other local internal audit providers.

Due Professional Care

The exercising of due professional care is in part enforced through the requirement that staff comply with the Institute of Internal Auditors' Ethical Code. The need for compliance with this Code is reiterated to all staff through the requirement to completed an annual Declaration of Independence and Ethical Behaviour return.

In addition to the overriding ethical standards applicable, SWAP requires all staff to disclose any interest possessed or gifts received which may pose a threat to the exercising of professional care.

SWAP's Audit Manual sets out the requirements in relation to the delivery of work, including the evidence requirements applicable. Adherence to this requirements is monitored through the internal review process undertaken in relation to all work delivered. This review process is evidenced within the MKI system.

Performance, Quality, & Effectiveness

In order to support auditors in the delivery of their work, SWAP has developed a detailed Audit Manual. At the time of our work this was undergoing a full review process which is designed to ensure that the manual is fully up-to-date and represents SWAP's current practices and procedures. SWAP is also reviewing how the manual is made available to staff. The aim is to provide a version on the organisation's network or intranet whilst also incorporating it into the MKI system.

SWAP has implemented an internal quality review process which is designed to ensure that all audit work is undertaken to the appropriate standards and is fully evidenced and documented. Allocation of work to individual auditors is undertaken so as to take account of their skills and competencies.

As part of its quality processes, SWAP has entered into an arrangement with three other internal audit providers so as to provide independent external validation of compliance with applicable standards. The plan is to undertake an externally validated self-assessment exercise on a tri-annual basis. The self assessments undertaken by SWAP will be validated by the Devon Audit Partnership.

In addition to the above processes, SWAP has also issued client surveys in order to ascertain the perception of its clients. This highlighted a number of areas of concern in relation to the Authority which SWAP is in the process of discussing with the Authority and developing resolutions.

We noted that the quality of working papers produced by Internal Audit has improved significantly from prior years.

Despite the improvements observed, scope for further improvements remains in relation to:

- sample selection;
- Sample size; and
- referencing.

Reports produced by SWAP, both for individual reviews and the annual report, meet the requirements of the standards.

Undertaking Audit Work

The use of the MKI software helps to ensure that audit work is clearly documented and links back to the risks identified at the planning stage. Through the use of approved work programmes it also helps to ensure that adequate work is undertaken to reach an opinion of each area tested.

As a result of the implementation of this system significant improvements in relation to the documentation of audit work undertaken have been seen.

We have reviewed a sample of internal audit reviews undertaken during the year, in addition to those covered by our Financial Statements work. This confirmed that work was being undertaken in a risk based manner and was subject to appropriate review prior to reports being issued. Despite this, we identified a limited number of areas where further improvements could still be made in relation to:

- **Sample selection** – we identified one instance where the samples selected for testing were skewed towards the period immediately prior to the audit being undertaken rather than offering assurance over the whole year;
- **Sample size** – there were four instances where, in relation to work covered by the Protocol Agreement, the sample size adopted was less than we would have expected given the frequency of the control; and
- **Referencing** – whilst we noted that in general the clarity of work was significantly improved, there remained a small number of areas where the clarity of referencing could have been improved so as to make work easier to follow.

Despite these areas for improvement, the way in which work is undertaken by SWAP remains generally compliant with the *CIPFA Code of Practice*.

Reporting

In order to ensure that all reports issued by SWAP are of sufficient quality, and meets the expected standards, a template report document has been developed. This is designed to ensure that all relevant sections, including the provision of an overall opinion. The MKI system is designed to record the information which will populate this report as the audit work is undertaken. It also ensures that issues are prioritised according to the level of risk identified.

Clear timelines have been developed for the delivery of reports which set out the time lapse expected between each of the stages of the audit process. Our review of actual performance identified no significant failings in relation to this. We are aware, however that the timeframe for delivery of a number of reviews has been changed during the year. In many instances this was the result of a request from the Authority.

An annual audit report is produced by SWAP at the end of each financial year and presented to the Audit Committee. The 2012/13 report was presented to the Audit Committee on 18 June 2013. This report provided the overall Head of Internal Audit Opinion, details of the outcomes for the audit work undertaken during the year, an update on the plan for the subsequent year, and an assessment of the performance of Internal Audit during the period. The Annual Report is designed to support the Authority in the development of its Annual Governance Statement.

Appendices

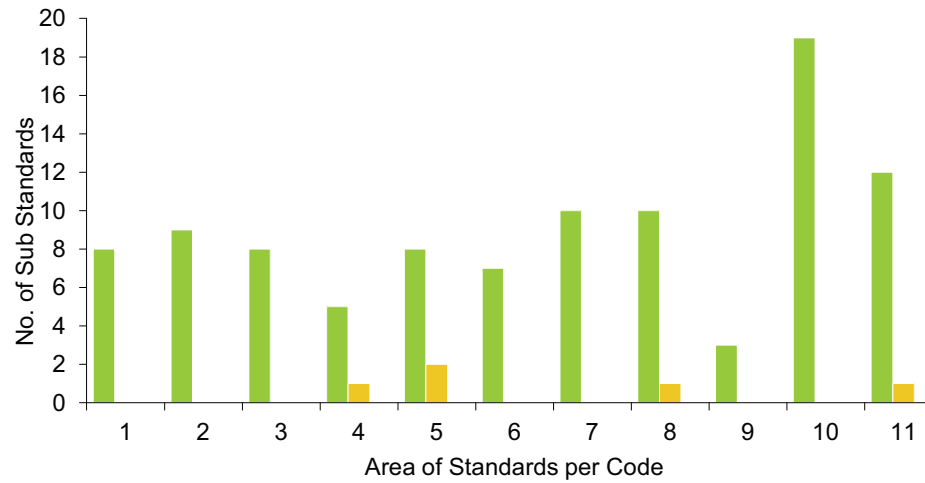
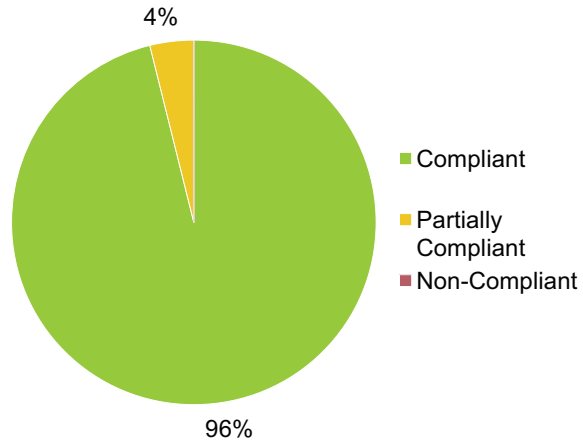
We have outlined below the areas of partial compliance which we identified as a result of our work:

Standard	SWAP Current Position	Potential Improvements
4 - Audit Committees		
4.2.5 - Is there the opportunity for the Head of Internal Audit to meet privately with the Audit Committee?	<p>The Internal Audit Charter makes reference to the Head of Internal Audit having direct access to the Chair of the Audit Committee, but does not include a provision relating to the ability to meet privately with the Audit Committee.</p> <p>The relationship with the Council is such that any such request is likely to be accepted, but it could be expressed more clearly in the Audit Charter.</p>	Amend the Internal Audit Charter to include a clear provision stating that the Head of Internal Audit has the right to meet with the Audit Committee in a private session as and when deemed necessary.
5 - Relationships		
5.1.2 - Is there a protocol that defines the working relationship for Internal Audit with:	<p>These relationships are governed by a number of documents:</p> <ul style="list-style-type: none"> ■ Management & Members – governed by the Internal Audit Charter and the Council's own Terms of References. ■ Other Internal Audit – at current there are no formal arrangements in place, although this is being reconsidered due to the increasing likelihood of working with other entities going forward. ■ External Audit – governed by a formal protocol agreed between the parties. ■ Regulators & Inspectors – There is no formal documentation as to how such a relationship would work. 	<p>Whilst it may not be possible to negotiate a protocol directly with regulators, it would be beneficial to include provisions within the Internal Audit Charter which provide clarity as to how SWAP will work with such organisations</p> <p>SWAP should also review any relationships it has with other Internal Audit providers, i.e. the internal auditors of the any entities with whom the Authority operates a joint budget. Where such relationships are likely to be ongoing, formal protocol arrangements should be developed to cover such relationships. In relation to more ad hoc working arrangements, it may be more appropriate to include details as to the approach to be adopted within the Internal Audit Charter.</p>
a) Management? b) Other Internal Auditors? c) External auditors? d) Other regulators and inspectors? e) Elected members?		
5.4.3 - Are the Internal and External Audit Plans co-ordinated?	In general SWAPs work has been timed so as to be available in time to meet the needs of External Audit. There was, however, one area of work where the SWAP work was not completed so as to be available for External Audit.	SWAP and KPMG will continue to work together to ensure that the delivery of audit work is planned so as to reduce the potential for duplication of effort between Internal and External Audit.

Standard	SWAP Current Position	Potential Improvements
8 – Undertaking Audit Work		
<p>8.3.2 - Are working papers such that an experienced auditor can easily:</p> <p>a) Identify the work that has been performed?</p> <p>b) Re-perform it if necessary?</p> <p>c) See how the work supports the conclusions reached?</p>	<p>Our review of a sample of audit files confirmed that in general the work had been performed to a high standard and was capable of re-performance.</p> <p>There were, however, a limited number of areas where the potential for improvement was identified (sample selection, clarity of referencing, sample size).</p> <p>The areas for improvement we identified in relation to sample sizes relate to areas covered by the Protocol Agreement between KPMG and SWAP.</p>	<p>Whilst recognising the progress which has already been made, SWAP should continue to emphasise the importance of producing high quality audit files. This includes the appropriateness of sample selection and size, and the clarity of referencing.</p> <p>Example sample sizes are provided within the <i>KPMG & SWAP Joint IA Protocol</i> document.</p>
11 – Performance, Quality, & Effectiveness		
<p>11.1.1 - Is there an Audit Manual?</p>	<p>SWAP has developed an Audit Manual which governs all work to be delivered.</p> <p>The audit manual is in the process of being uploaded into the MKI system in order to ensure that it is available to all staff during audits. In addition, it is held on the network drives in word format for reference.</p> <p>The recent independent assessment in relation to <i>PSIAS</i> compliance indicated that improvements to the manual were required in order to ensure that it was up-to-date and fully available to all staff. This is still a work in progress and is scheduled for completion in September 2013.</p>	<p>SWAP should ensure that plans are in place to complete the review of the Audit Manual on by the agreed deadline so as to ensure that staff are fully supported in the delivery of their work. Once completed, processed should be implemented which ensure that regular reviews are undertaken going forward.</p> <p>It is also essential to ensure that issues around the availability of the Audit Manual are resolved so that staff can freely refer to it when needed. It is essential that such access be available when working away from SWAP offices.</p>

We have set out below an analysis of the level of compliance achieved overall and, where not fully compliant, by standard area.

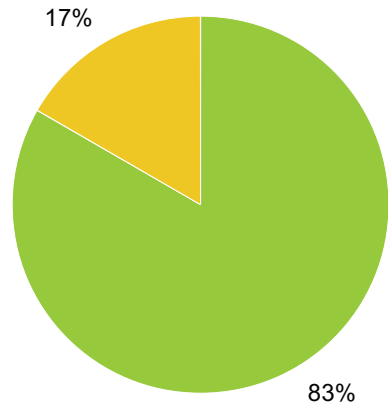
Overall Compliance Levels



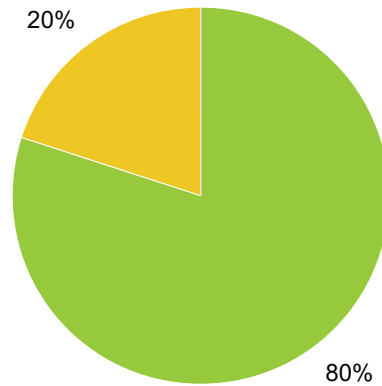
- Areas of Standards per Code**
1. Scope of Internal Audit
 2. Independence
 3. Ethics for Internal Auditors
 4. Audit Committees
 5. Relationships
 6. Staffing, Training, & Professional Development
 7. Audit Strategy & Planning
 8. Undertaking Audit Work
 9. Due Professional Care
 10. Reporting
 11. Performance, Quality, & Effectiveness

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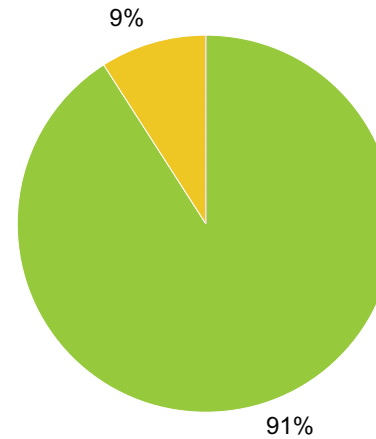
4 – Audit Committees



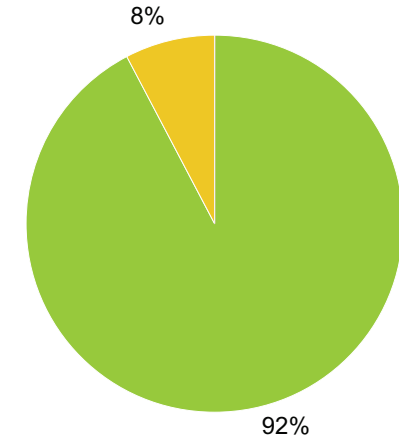
5 - Relationships



8 – undertaking Audit Work



11 – Performance, Quality & Effectiveness



In relation to all other areas SWAP achieved 100% compliance



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