



Wiltshire Council

Annual Report and Opinion 2011-12

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Annual Opinion:

The Head of Internal Audit is required to provide an annual opinion report to support the Annual Governance Statement.

Head of Internal Audit Opinion

Over the year SWAP has found Senior Management at Wiltshire Council to be supportive of Internal Audit findings and responsive to the recommendations made. In addition there is a good relationship with Management whereby they feel they can approach SWAP openly into areas where they perceive potential problems and again welcome the opportunity to take on board recommendations for improvement.

I have considered the balance of audit work and outcomes against this environment and am able to offer reasonable assurance, in respect of the areas reviewed during the year, as most were found to be adequately controlled. Generally risks are well managed but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives. Whilst I have limited concerns regarding some aspects of the control environment, I did not consider there to be any areas of significant corporate concern.

Local Government, along with other Public Sector partners is experiencing unprecedented change driven by Central Government and this, as well as the ongoing merging of systems and processes, will result in many challenges for Wiltshire Council. These changes will mean greater reliance will be placed on internal systems and their effectiveness. In order to make changes and react to new and emerging risks, the Council will need assurance that Internal Controls are in place and operating effectively.

A key objective of SWAP is to continue to support management in this task. I am confident that the Internal Audit Plan for 2012-13 has the correct focus for this purpose, but it will of course need to remain flexible to meeting the ever changing risk environment.

Annual Opinion:

The Head of Internal Audit is required to provide an annual opinion report to support the Annual Governance Statement.

Purpose of Report

The Accounts and Audit Regulations (England) 2011 requires public authorities to publish an Annual Governance Statement (AGS). The Statement is an annual review of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Head of Internal Audit should provide a written annual report to those charged with governance to support the AGS. This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment
- disclose any qualifications to that opinion, together with the reasons for the qualification
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
- compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content.

Annual Opinion:

The Head of Internal Audit is required to provide an annual opinion report to support the Annual Governance Statement.

Background

The Internal Audit service for Wiltshire Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors and in compliance with the CIPFA Code of Practice. The work of the partnership is guided by the Internal Audit Charter which is reviewed annually. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work of the section is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of SWAP for the year April 2011 to March 2012.

The provision for Internal Audit transferred to The South West Audit Partnership with effect from the 1st November 2011. All the existing in-house staff, with the exception of the I.T. Manager transferred under TUPE conditions and therefore it is important to note that none of the local expertise was lost as part of this process.

Since November 2011, the arrangements in place have been transitional in that the working practices operated by Wiltshire Internal Audit were not changed. This was a deliberate decision based on a number of factors, but primarily it was felt that changing practices in mid-year may have led to confusion for staff, management and members. Further to this there were significant delays in getting the appropriate I.T. infrastructure in place and therefore the use of SWAP's audit automation tool, MKi would not have been practicable until delivery of the 2012-13 Annual Plan.

As previously reported to Members, the approach adopted by SWAP is different in that we assess risks at a corporate level and prioritise actions at the service/function level. We have, as agreed delivered training to members on this approach and the feedback was extremely positive.

Completed Audit Assignments 2011/12

The Annual Audit Report and Opinion covers the following key areas of Activity:

- OPERATIONAL AUDITS
- CERTIFICATON WORK
- SPECIAL PROJECTS
- FOLLOW UP WORK

Internal Audit Work Programme

The schedule provided at Appendix A contains a list of all audits agreed for inclusion in the Annual Audit Plan 2011/12 and the final outturn for the financial year. In total, 91 (including 8 at draft) audit reviews were completed during the year with a further 7 audits due for completion. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Of the 91 reviews completed, they are broken down as follows:

Operational Audits	29
Key Control	18
Follow Up Work	4
Unplanned / Special Project Work	10
Schools	30

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” (Appendix D).

Members should note that with effect from the 2012-13 Audit Plan the Audit Framework definitions used will be the same as the rest of the Partnership. This should not cause any issues and both historic and new assurance opinions are noted in the aforementioned document.

Completed Audit Assignments 2011/12

The Annual Audit Report and Opinion covers the following key areas of Activity:

- **OPERATIONAL AUDITS**
- **CERTIFICATON WORK**
- **SPECIAL PROJECTS**
- **FOLLOW UP WORK**

Audits Completed

OPERATIONAL AUDITS:

Operational Audits are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated. A total of 38 Operational Audits were undertaken by SWAP for the period April 2011 to March 2012. 8 audits are at "draft report status", 9 are "in progress" or at "discussion stage" and 21 have now been completed to "final report status". Of the reports issued to at least draft stage, 11 have received "limited assurance".

A "limited/partial" or "none" opinion has been given where some or all key risks are not well managed and systems require the introduction and/or improvement of internal controls to ensure the achievement of objectives (see audit opinion definitions in Appendix D). In our notes below we have tried to summarise the key issues that require management attention to address our findings. These are reports that have been issued since our last update to this Committee in December 2011, and therefore have not previously been reported.

Completed Audit Assignments 2011/12

The Annual Audit Report and Opinion covers the following key areas of Activity:

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- FOLLOW UP WORK

Audits Completed

1(9). OSJ Care Homes – Limited Assurance

The Internal Audit Opinion for OSJ Care Homes was Limited Assurance. Weaknesses in the system of control were such as to put service objectives at risk.

A sample of care plans were reviewed and in all cases the daily care plans were completed and signed although issues were identified with the timing of monthly and 6 monthly reviews carried out by OSJ. There were also issues around the timing of annual reviews which should be carried out by the Council as in the majority of files tested the review was overdue or there was no evidence of a review taking place.

In general the cash records were in good order; however there were concerns with the level of detailed receipts and a number of receipts were missing. The audit in 2010 also highlighted these concerns and it was apparent that although steps have been taken by OSJ to address this in the individual homes visited last year, these have not been implemented across the region.

With regards to the information sent from OSJ to the Council, this audit was pleased to observe an improvement since the previous audit. Action is currently taking place to change the whole procedure to ensure that any problems in the homes are detected to enable prompt action to be taken. Again, following the previous audit, new contract management meeting governance arrangements have also been implemented and no further risks identified.

In accordance with the government standards, homes are subject to a regime of external inspection. As more services are being commissioned through external providers, good quality information from the provider and detailed contract review will be increasingly important. The use of Internal Audit could also support this work.

Completed Audit Assignments 2011/12

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Audits Completed

2(33). Altair Pensions Systems – Limited Assurance

The Internal Audit opinion for **Altair Pensions system** was **Limited**. The audit opinion does not reflect any inadequacy of the Pensions team but is as a result of the lack of information provided by Heywood regarding backups, Disaster Recovery Testing and the inability of the system to show the permissions attributed to each role.

It appears that all Wiltshire domain users had read only access to all the documents stored on the Pensions area of the SharePoint site. Due to the very high risk of a data breach, this finding was reported to the Head of Pensions and the Head of Governance Services immediately, for action.

The information provided by the Pensions team was very well presented, accurate and timely.

3(39) Planning Applications – Limited Assurance

The Internal Audit opinion for **Planning Applications** was '**Limited Assurance**'. This means that there are weaknesses in the system of control as to put service objectives at risk. This level of assurance reflects the 'state of flux' reported in the latest Service Delivery Plan due to recent restructuring, relocation of teams, the reliance on legacy ICT systems, and loss of staff prior to the audit and the lack of a single core strategy for Wiltshire.

Three of the four planning teams had been the subject of a partial systems thinking review in the past. As the south team was one of those reviewed our testing initially focussed on that area as it had a degree of commonality with the way two of the other teams operated. The recommendations in this report stem from findings and observations in the south team which we believe will assist two other teams in the short term, and inform best practice for the whole service when the services upgrades to a single new IT system in 2012.

Completed Audit Assignments 2011/12

The Annual Audit Report and Opinion covers the following key areas of Activity:

- OPERATIONAL AUDITS
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Audits Completed

The main areas of control weakness identified were as follows:

- Income collection, recording and banking.
- Audit trail and reconciliation of fees received to the main ledger.
- Segregation of duties, record keeping and checking.
- Monitoring and managing delays in planning decisions.
- Inconsistency in public information on the website.
- Maintaining the project risk register.

4(20) Housing and Council Tax Benefits – Limited Assurance

The Internal Audit opinion for **the Housing and Council Tax Benefits** system was a **Limited Assurance**. This means that weaknesses in the system of control are such as to put service objectives at risk.

This opinion was due largely to the fact that written procedures and operating arrangements were yet to be finalised in a number of key areas.

Our independent testing showed benefit payments under the new application system reconcile to the SAP main ledger, but there was no process or written procedure yet established for weekly reconciliations being carried out and signed off. We were therefore unable to re-perform any management reconciliations as these have not yet being undertaken.

At present, arrangements for the issuing of invoices for benefit overpayments were still to be finalised. Consequently, we have been unable to offer any assurance on the controls in this area following conversion.

Completed Audit Assignments 2011/12

The Annual Audit Report and Opinion covers the following key areas of Activity:

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We found that exception reporting is only being used currently (as under the legacy Northgate system) to identify large payments. Testing demonstrated that this had successfully identified some incorrect payments due to data omissions on conversion from legacy systems. Staff training was currently being given to staff on using the Northgate Business Objects reporting tool. This should enable development of more sophisticated arrangements for exception reports to be produced for managers that will give early warning of unusual or irregular payments, and assist in the effective monitoring of overpayments.

We also found weaknesses in the way rejected BACs payments were being notified to Benefits staff so that appropriate adjustments can be made to client accounts where payments have not been made. Recommendations were made to improve communication between Accounts Payable and Benefits staff. In addition, our report last year saw advantages in setting up BACs payment runs exclusively for Benefits] payments as a means of simplifying the reconciliation process and we again recommended this.

5(54) Luckington Community School – Limited Assurance

The Internal Audit opinion for systems of financial and other control operated within Luckington Community School was:

Limited Assurance – Weaknesses in the system of control are such as to put service objectives at risk.

Our opinion is based on the following key issues:

- The School's Scheme of Delegation was out of date and the Business Register **is** incomplete.
- Based on the information and documents provided, we could not confirm that the School's budget had been reviewed in accordance with the financial regulations for the current financial year.
- Weaknesses in purchase controls were found, notably orders are not marked as being checked and the Headteacher does not authorise payment of invoices.

Completed Audit Assignments 2011/12

The Annual Audit Report and Opinion covers the following key areas of Activity:

- OPERATIONAL AUDITS
- CERTIFICATON WORK
- SPECIAL PROJECTS
- FOLLOW UP WORK

Audits Completed

- Weaknesses in processing income were found. There is no separation of duties, transfers take place between the Voluntary Fund and bank account, and a number of different records are kept which stretch the audit trail. A comprehensive check on the sums collected, recorded and banked is required to ensure that all income due to the School is received in the School's official bank account and is received promptly, regularly and in full.
- Bank reconciliations and the investigation of un-reconciled items were not carried out promptly.
- From review and testing undertaken, all other expected controls relating to the systems reviewed (as stated above) were found to be operating satisfactorily.

6(63) Nicholas Church of England Voluntary Controlled Primary School – Limited Assurance

The Internal Audit opinion for systems of financial and other control operated within **St Nicholas Church of England Voluntary Controlled Primary School** was:

Limited Assurance – Weaknesses in the system of control are such as to put service objectives at risk.

Our opinion is based on the following key issues:

- The Scheme of Delegation requires updating
- The School Development Plan could be used more effectively
- Budget monitoring reports to the governors need to be timely and regular
- Reports from the financial management system should be retained to support the monitoring reports that are presented to the governors
- Minutes taken at the meetings of the Finance and Buildings Committee should be produced and retained at the School
- Maintaining up to date banking records and regular reconciliations including clearing un-reconciled items is required

Completed Audit Assignments 2011/12

The Annual Audit Report and Opinion covers the following key areas of Activity:

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Audits Completed

- Although we found weaknesses spread amongst the systems that we reviewed (as stated above) there were also good controls in place throughout these systems.

Completed Audit Assignments 2011/12

The Annual Audit Report and Opinion covers the following key areas of Activity:

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Audits Completed

KEY CONTROL AUDITS:

The Key Control Audit process focuses primarily on key risks relating to the Council's major financial systems. It is essential that all key controls identified by the External Auditors are operating effectively to provide management with the necessary assurance. The findings from these reviews are considered by the External Auditors when they assess the Council's Financials Statements ay year end.

There were 18 key control audits completed as part of the 2011-12 plan. As can be seen from Appendix A, 12 received "full" or "substantial" assurance, and 6 "limited" assurance.

UNPLANNED / SPECIAL PROJECT WORK:

Occasionally when Management identify a potential area for specific attention or an unexpected problem arises in a service area, Internal Audit are requested to undertake a review to provide advice and, if appropriate, recommendations for improvement. In some cases it may be necessary to defer planned reviews in order to complete these special reviews, but where ever possible the impact on the delivery of the plan has been minimised. 10 additional unplanned audits were undertaken during the period April 2011 to March 2012 all of which have been completed.

FOLLOW-UP WORK:

Follow-up Audits are carried out to confirm that any recommendations from the original audit, where a "partial" or "none" opinion was afforded, have been completed as agreed. 4 Follow-up Audits were undertaken during the period April 2011 to March 2012 and it is pleasing to note that all high priority actions have been reviewed and management action to address these confirmed.

Audit Progress 2012/13

Our audit activity is split between:

- **OPERATIONAL AUDITS**
- **CERTIFICATON WORK**
- **SPECIAL PROJECTS**
- **FOLLOW UP WORK**

Audits Progress 2012-13 Plan

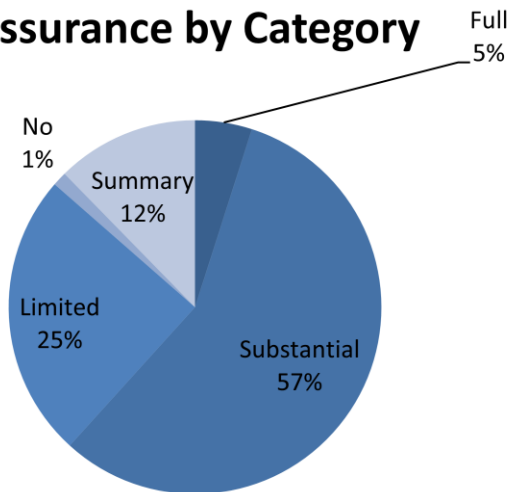
The Annual Audit Plan 2012-13 was agreed by this Committee on Wednesday, 21st March, 2012 and the progress to date on the quarter scheduled work is detailed in Appendix B.

As mentioned earlier in this report, the processes, assessment of risk and prioritisation of recommendations will all be changed to the new approach adopted by SWAP and all of its partners. There will clearly be somewhat of a learning curve for staff but the new approach allows us to compare and contrast risks across our partners from the same basis.

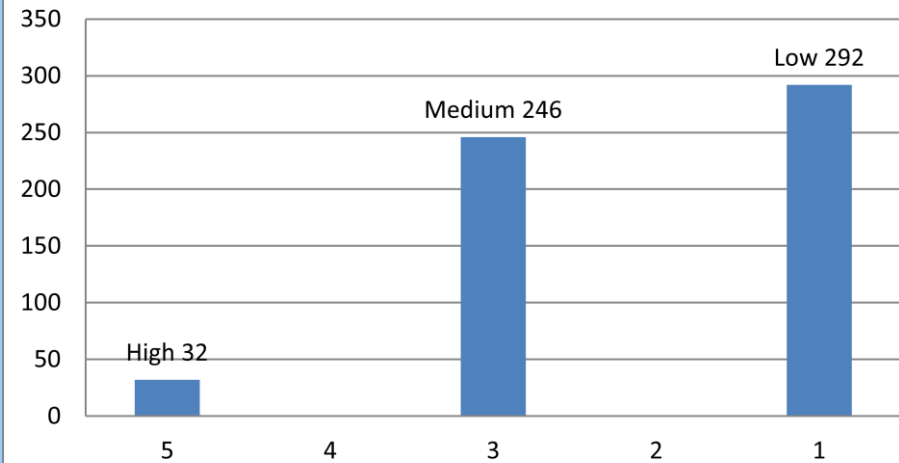
In terms of the 2012-13 plan I am pleased with the progress that has been made although our priority must be to bring the 2011-12 plan to a swift conclusion. A more detailed report with greater narrative will be presented to members at the September Audit Committee.

Summary of Control Assurance and Recommendations

Assurance by Category



Audit Recommendation by Priority



Performance:

The Head of Internal Audit Partnership reports performance on a regular basis to the SWAP Management and Partnership Boards.

SWAP Performance

SWAP now provides the Internal Audit service for 12 Councils and also many subsidiary bodies. SWAP performance is subject to regular monitoring review by both the Management and Partnership Boards. The respective outturn performance results for Wiltshire Council for the 2011/12 year are as follows;

Performance Target	Average Performance
<p><u>Audit Plan</u> Percentage Completion 100% (Reflecting agreed amended plan and "In Progress" work to be completed by the end of June 2012)</p>	100%
<p><u>Draft Report</u> Reports Issued within 5 working days Reports issued within 10 working days</p>	Full Year Not Available Full Year Not Available
<p><u>Final Reports</u> Reports issued within 10 working days of discussion of draft report.</p>	Full Year Not Available
<p><u>Quality of Audit Work</u> Individual Audit Assignment Feedback</p>	85%
<p><u>Audit Fee</u> Audit Fee to Planned Fee - 0% Variation</p>	0%

Performance:

The Head of Internal Audit Partnership reports performance on a regular basis to the SWAP Management and Partnership Boards.

SWAP Performance

Appendix C shows a list of detailed KPI's that SWAP will be measured against during the year. These may be subject to some refinement but these will be reported on a quarterly basis to this Committee. KPI's since November have not been produced purely due the different systems operating in year, however, I am happy with the performance to date as reported.

With regards to the 2011/12 Annual Plan for Wiltshire Council, there were a total of 92 reviews completed. In agreement with management, and previously reported to this Committee a number of reviews were removed due to the disruption by changes to management arrangements.

Most audits have been completed to report stage. For those reviews still showing as "In Progress", testing in most cases has been completed and these are targeted to be finalised before the end of June.

At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the service manager or nominated officer. The aim of the questionnaire is to gauge satisfaction against timeliness; quality; and professionalism. As part of the Balanced Scorecard presented to the SWAP Management Board, a target of 85% is set where 75% would represent a score of good. The latest Scorecard across the entire Partnership shows the current average feedback score to be 84%. Whilst the feedback has been limited due to the transitional arrangements the average feedback score was for Wiltshire Council was 85%.