

# **Internal Audit**

## **Annual Report 2009-10**

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## **INTERNAL AUDIT** **ANNUAL REPORT 2009-10**

### ***Introduction***

1. The Council is required to maintain an adequate and effective system of internal audit in accordance with proper practices. Internal Audit is an assurance function that provides an independent and objective opinion on the Council's control environment. Its objective is to examine, evaluate and report upon the adequacy of internal controls as a contribution to the proper use of resources. In pursuing this objective, Internal Audit is concerned with:
  - Supporting the Chief Financial Officer in making arrangements for the proper administration of financial affairs (often referred to as 'Section 151' responsibilities)
  - Supporting the Department of Resources in ensuring that sound control systems and procedures are in place and operating effectively
  - Contributing to and supporting the corporate governance process, and the development of internal control across the Council as a whole.
  
2. Reporting on the results of its work is an important part of the internal audit process. The purpose of this Annual Report is therefore to present an overview of the following:
  - Internal Audit's performance against a range of key targets for 2009-10
  - Internal Audit's work done, findings and significant issues arising from the range of audits carried out throughout 2009-10
  - An overall audit opinion on the Council's control environment, arising from this year's audit work. This opinion serves as an important source of assurance in support of the Annual Governance Statement for 2009-10.

### ***Review of Internal Audit Performance 2009-10***

#### **Overall Performance Statistics**

3. In order to present an overview of Internal Audit's performance for the year, the following tables summarise certain key targets against which we measure our achievements for 2009-10. Since this was the first year of Wiltshire Council, previous year comparator figures are not available.

<b>Table 1 – Audit Days and Costs 2009-10</b>				
<b>Area</b>	<b>Target</b>	<b>Actual</b>	<b>Variation</b>	<b>Comments</b>
Number of chargeable audit days	<b>2,800</b>	<b>2,739</b>	<b>-1.7%</b>	Delays in recruiting to vacant posts, offset by additional input from CIPFA Student and temp staff
Cost per audit day charged	<b>253</b>	<b>242</b>	<b>-4.3%</b>	Unit cost reduced by additional student days
IA gross expenditure less external income	<b>£711,000</b>	<b>£662,000</b>	<b>-7.4%</b>	
As % of Council gross expenditure	<b>0.073%</b>	<b>0.068%</b>		

<b>Table 2 – Audit Staff Time Analysis 2009-10</b>				
<b>Area</b>	<b>Target</b>	<b>Actual</b>	<b>Variation</b>	<b>Comments</b>
Chargeable time	<b>81%</b>	<b>81%</b>	<b>-</b>	
Development / management/support	<b>14%</b>	<b>13%</b>	<b>-1%</b>	Small shortfall on training days achieved
Total productive time	<b>95%</b>	<b>94%</b>	<b>-1%</b>	
Non productive time	<b>5%</b>	<b>6%</b>	<b>+1%</b>	

### **Factors Affecting Performance**

- The small shortfall against the target chargeable days was attributable to delays in recruiting to vacant posts, to some extent offset by the placement of a CIPFA trainee within the team during the early months of the year as part of their professional training programme.

5. Whilst these performance measures are presented without comparative information at this stage, we are taking part in this year's national benchmarking review for internal audit teams in unitary councils, and therefore later in 2010, we will be able to report our performance compared to other unitaries up and down the country.

### ***Audit Opinion on the Control Environment***

6. The levels of assurance obtained from the range of audits we have completed during the year lead us to the overall audit opinion that for 2009-10, the Council's overall control environment must be seen as limited in terms of its adequacy and effective operation. When seen in the context of the major structural reorganisation which took effect from 1<sup>st</sup> April 2009, moving from five councils into one, and the inevitable significant transition and upheaval which has followed, this level of assurance should not be seen as unreasonable in the circumstances.
7. During the course of our work throughout the year, we became aware that many of the systems and activities being audited were in the process of ongoing development and improvement. This was particularly noticeable in the case of financial systems during the final months of the year, when management was able to give increased focus and attention to improving control issues. Nevertheless, our opinion must represent our view of the year taken as a whole. Those key factors giving rise to the overall audit opinion are set out below.

### **Key Factors**

8. The findings and opinions from each audit assignment are accumulated throughout the year, and serve to inform our overall opinion on the internal control environment for the Council as a whole. A full list of the outcomes of individual 'opinion' audits completed during the year is attached as Appendix 1 to this report. For each audit this shows the audit objectives, our opinion, the risks identified, and management's proposed actions.
9. The main factors underlying the audit opinion are as follows.

### **Financial Systems**

10. A significant element of our work has been taken up in the review and testing of the Council's main financial systems. Audits have been carried out in the following areas:
  - Accounts Payable
  - Accounts Receivable
  - Payroll
  - Financial Reporting

- Cash, Investments and Borrowing
  - Council Tax
  - National Non Domestic Rates
  - Housing and Council Tax Benefits
  - Housing Rents.
11. Many of these functions were transferred into the newly-implemented SAP system from 1<sup>st</sup> April 2009, therefore we recognise that it has required time for staff to become conversant with a wide range of entirely new day to day processes, and to ensure these financial functions work within an adequate control environment. This transitional period has therefore had a short-term impact on the adequacy and robustness of system controls, which in turn has affected our audit opinion in each area.
12. We reported our audit opinion in each of these areas, of which seven were a 'limited' opinion, and two a 'good' opinion. The main risks and issues arising were as follows:
- **Accounts Payable:** The need to ensure a more consistent application of controls to prevent the introduction of inappropriate or fraudulent invoices into the system;
  - **Accounts Receivable:** Lack of a debt management policy and therefore inadequate debt recovery procedures;
  - **Financial Reporting:** The need to raise the quality of budget monitoring reports, and better control and authorisation of journals into the main ledger;
  - **Council Tax:** The need to improve the reconciliation of application systems with the cash collection system, the main ledger, and the Council's bank accounts;
  - **Non Domestic Rates:** The need to strengthen arrangements for the correct calculation and billing of all liable properties;
  - **Housing & Council Tax Benefits:** Increased efficiencies need to be achieved by implementing a single application system to deliver the benefits of common processes;
  - **Housing Rents:** Lack of adequate rent arrears recovery procedures and business continuity arrangements.
13. The work we have undertaken in relation to all financial systems has been reviewed and reliance taken by the Council's external auditors, KPMG, in order to inform their audit of the Council's final accounts for 2009-10.

14. The overall response of management to the various risks and issues raised has been positive and constructive. The need to improve controls is recognised and work is in progress to achieve the desired outcomes. Given the evidence of progress towards control improvements during the latter part of the year, we would be looking towards an improved level of assurance for 2010-11, as systems and procedures become more established and robust.

### Audits of Service Areas

15. A range of audits were carried out across all service departments, based on risks and issues identified at the start of the year and incorporated into our audit plan. For each audit an opinion was reported to management. In twelve cases the opinion was 'limited', whilst in three cases it was 'good'. The main risks and issues arising from audits of service areas were as follows:
- **Safeguarding of Children and Vulnerable Adults:** The need to include adequate safeguarding clauses in contracts for service provision;
  - **Community Service Contract Management:** Failure to maintain adequate contract documentation, and some gaps in authorisation procedures;
  - **Leisure Centres:** The need to ensure full asbestos safety checks in all cases, and to improve First Aid training for staff;
  - **Car Parking:** Insufficient monitoring and verification of car park income;
  - **Highways Maintenance:** The need to ensure consistency of priority ratings for repair work, and proper maintenance of inspection logs;
  - **Highways IT System (Exor):** Lack of proper system and password security could allow incorrect or inappropriate payments to contractors;
  - **Trade Waste:** The need to improve both the timeliness of issuing invoices, and the accuracy of invoice details;
  - **Waste Management:** Potential for landfill waste to exceed the Landfill Allowance Trading Scheme target;
  - **Passenger Transport (post 16s):** The need to strengthen the arrangements for issuing passes, and for recording and reconciliation of payments;

- **West Wilts Housing PFI:** The need to ensure that full credit checks are undertaken, that adequate risk information is maintained, and that we enter into an agreement which accords with relevant procurement legislation (NB. Risks and issues are regularly updated as we attend and report to the PFI Project Board);
  - **CareConnect:** Failure to test the disaster recovery plan;
  - **Private Sector Housing Services:** Lack of proper budget monitoring and inadequate authorisations, leading to risk of overpayments and duplicate payments;
  - **Care First System (Children and Adult Services):** The need to ensure the system is adequately communicated, managed and monitored, and to improve the level of system availability, with better support from the system provider;
  - **Capital Projects:** The need to improve verification procedures to avoid the risk of over-reliance on external consultants for release of payments.
16. In all cases action plans have been agreed with management in order to address and manage the risks identified. These plans will be used as the basis for follow-up work to gain assurances on management action taken as part of the 2010-11 audit work programme. The results of follow-up work will be reported regularly to the Audit Committee

### ***Review of Other Audit Work 2009-10***

17. In addition to the range of individual opinion audits undertaken, we are also called upon to carry out a wide variety of other work, for reasons which include the following:
- As a contribution to national initiatives
  - In response to specific client requests, or circumstances which arise during the year
  - To support the development of governance and internal control more generally.
18. The nature and outcomes of these various audit reviews are summarised in Appendix 2 to this report, whilst one item of particular significance is described in the following section.

## Anti Fraud and Corruption

19. The issue of combating the risk of fraud and corruption has increased in importance and prominence nationally in recent years, helped by the publication of national reports and guidance from the National Fraud Authority, the Audit Commission, and CIPFA. In response, local authorities are expected to give increased priority to ensuring that their anti fraud and corruption arrangements are robust and well understood by all staff and members.
20. In order to take this forward in 2009-10, we undertook a range of work in connection with this overall topic, the main activities being as summarised below.

### National Fraud Initiative (NFI)

21. The Audit Commission's NFI data-matching exercise provided the Council with 16,386 items (data "matches") for potential investigation. We have undertaken the necessary investigations with specialist staff in relevant areas, and the results are summarised in the table below. This shows relatively few investigations of single person discount to date, simply because the data was only made available in March 2010 and further investigations are currently in progress.
22. There is no general expectation that we will investigate every item, but the data is analysed and prioritised to ensure that the higher risk items are covered.

### NFI – position at 31 March 2010

Match Type	Total	Investigated	Frauds	Errors	Loss
Benefits	4,118	2,613	8	33	£46,002
Tenancy fraud	10	10			
Right to buy	10	10			
Single person discount	3,388	52		8	£2,662
Pensions	518	515			
Payroll	316	103		1	
Blue Badge Parking Permits	2,269	2,269		719	
Concessionary Travel Passes	718	718		21	
Residential Care Homes	174	174			
Insurance Claimants	70	21			
Creditors	4,795	3,426		37	£22,220
<b>TOTALS</b>	<b>16,386</b>	<b>9,911</b>	<b>8</b>	<b>819</b>	<b>£70,884</b>

23. This was the first time Wiltshire provided Blue Badge data to the NFI. Review of all 2269 matches identified 719 cases where the death of a badge holder had not been recorded. Whilst there were no indications of fraud the work enabled valuable updating of the Council's database.



24. Investigation of care homes matches indicates a strong system of control is in place. The worst cases were one overpayment for 15 days and one for 12 days.
25. Many benefits matches are already known to the benefits investigators through their own regular information sources, but the table demonstrates the NFI also makes a contribution to this area. The majority of items not investigated relate to a former District Council where a decision was taken to investigate only priority matches.
26. The Council took part in an additional subletting exercise and received ten matches in December 2009, all of which have been reviewed but with no error or irregularity arising.
27. The Audit Commission guidance is clear that creditors matches will most likely identify system errors rather than fraud. As with most other Councils in the region, we have found many creditors matches are regular instalment payments. We have also found that because the data was supplied from systems operated by the five former Councils, a number of corrections have already been made for the new SAP system. The £22,220 loss against creditors is mainly due to an irrecoverable duplicate payment of nearly £18,000 made by a former District Council to a contractor in liquidation.

### **Anti Fraud and Corruption – Strategy and Policy Work**

28. We carried out a major review of the Council's counter fraud arrangements. This indicated the need for a number of improvements and initiatives to ensure there are appropriate policies and procedures in place, and to provide greater fraud awareness for both staff and members. We then developed and implemented a series of coordinated measures to significantly enhance the Council's counter fraud strategy.
29. A revised foundation for the Council's counter fraud strategy was established through Cabinet approval of a new Anti Fraud and Corruption (AFC) Policy. This describes the comprehensive arrangements in place for combating fraud and corruption throughout the Council whether the risk arises from within the organisation or from outside. We arranged for the policy to be placed on the Council's internal website with direct links to other policies, procedures, regulations and guidance which form the detailed framework of the Council's counter fraud strategy. As the policy itself is relevant to all clients, customers, contractors etc we also made it available on the Council's public website.
30. We subsequently introduced, with Cabinet approval, an Anti Money Laundering (AML) Policy, which we supported with a set of associated AML Procedures. This gave the Council an appropriate and proportionate range of measures to ensure compliance with legal obligations, regulatory responsibilities and responsibilities towards employees who may experience potential money laundering situations.

31. The AFC policy contains a link to a web page on The Wire which we have developed as a vehicle for further raising fraud awareness throughout the Council. We have placed on this web page a variety of information about fraud and links to other documents, legislation and websites. These resources are of direct relevance to Council business, to individuals in a private capacity, and of more general interest such as reports by the National Fraud Authority and Audit Commission.
32. Our fraud awareness web page is headed by a supporting statement from the Chief Finance Officer and Cabinet Member for Finance, Performance and Risk which also endorses a web-based training course, which we acquired from an external provider, and then customised for the specific needs and circumstances of Wiltshire Council. The course is freely available to all staff and councillors and contains an endorsement directly from the Chief Executive.

### **Anti Fraud and Corruption – Investigations Work**

33. The year has seen us involved in investigating several specific cases of suspected fraud and theft, as well as a number of more controls-focussed reviews arising from particular concerns notified to us by departmental staff.
34. Cases we investigated involved losses to the Council totalling over £30,000. Some of these were low-value thefts of cash from remote offices with poor security, where neither we nor the police were able to identify the thieves. Our investigations have invariably resulted in management action to enhance security arrangements. Most of the losses, however, were due to the following three cases of fraud.
  - One of these frauds had been initiated by a former District Council employee, who fraudulently accounted for cash floats supplied for Council-sponsored weekend events over a nine month period between 2008 and 2009. The fraud was discovered after official records were found in suspicious circumstances by another member of staff. The employee was dismissed and successfully prosecuted with the Council being awarded £1200, the value of the loss to Wiltshire Council in the current year.
  - A second fraud was discovered following two reports to Council staff that a fraudulent invoice had been submitted and paid. The payment was facilitated by the failure of certain controls which have since been tightened. We helped with the initial investigation, the police then pursuing the wider aspects of the case. A successful prosecution followed with the Council being awarded £5000 (about 70% of the loss).

- The third and largest case resulted in the dismissal of a member of staff, following which we passed the results of our investigation to the police. This fraud involved making cheques payable to inappropriate recipients, forging signatures on cheques and other documents, and the falsification of accounting records. The fraud was discovered during the employee's absence when a manager became suspicious about certain bank statement entries. Following our investigation, procedures for all similar establishments were re-written to incorporate enhanced control arrangements. Prosecution of the former member of staff is currently underway, and whilst pending the outcome, the Council has received £17,000 from our insurers (the losses we were able to confirm during our investigation less the usual policy excess).
35. We also investigated other suspicions and concerns raised by departments where we concluded there had been no unlawful act or there was insufficient evidence to prove a specific offence. In these cases, however, it was clear that controls could usefully be improved. Such cases included the security of electricity supplies at a travellers' site, financial procedures at a school and the use of a purchase card.

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