

**Appendix 1**



# **Internal Audit Annual Report 2007-08**

<b>Contents:</b>	<i><b>Introduction</b></i>
	<i><b>Review of Internal Audit performance 2007-08</b></i>
	<i><b>Review of Audit Work 2007-08</b></i>
	<i><b>Audit Opinion on Internal Control</b></i>
	<i><b>Appendix: Summary of further audit work and outcomes 2007-08</b></i>

**Chief Auditor:** Steve Memmott

**Date of Report:** June 2008



## **INTERNAL AUDIT** **ANNUAL REPORT 2007-08**

### ***Introduction***

1. The County 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 County 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 the provision of, and promoting the need for, sound systems and procedures
  - Contributing to and supporting the corporate governance process, and the development of internal control across the County 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 key targets for 2007-08 compared with the previous year
  - Internal Audit's work done, findings and significant issues arising throughout 2007-08 from departmental and corporate audits
  - An overall audit opinion on internal control, arising from this year's audit work, in order to inform the Annual Governance Statement for 2007-08.

### ***Review of Internal Audit Performance 2007-08***

#### **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 2007-08 (with comparative figures for the previous year shown in brackets).

<b>Table 1 – Audit Days and Costs 2007-08 (compared to 2006-07)</b>				
<b>Area</b>	<b>Target</b>	<b>Actual</b>	<b>Variation</b>	<b>Comments</b>
Number of chargeable audit days	<b>2,050</b> (1,830)	<b>1,685</b> (1,680)	<b>-8.2%</b> (-17.8%)	Sickness and increased staff turnover
Cost per audit day charged	<b>192</b> (196)	<b>225</b> (210)	<b>+17.2%</b> (+7.1%)	Effects of additional sickness and turnover
IA gross expenditure less external income	<b>£394,000</b>	<b>£380,000</b>	<b>-3.5%</b> (-1.7%)	Some savings on staffing costs due to turnover
As % of WCC gross expenditure	<b>0.063%</b> (0.064%)	<b>0.061%</b> (0.063%)		

<b>Table 2 – Audit Staff Time Analysis 2007-08 (compared to 2006-07)</b>				
<b>Area</b>	<b>Target</b>	<b>Actual</b>	<b>Variation</b>	<b>Comments</b>
Chargeable time	<b>80%</b>	<b>67%</b> (71%)	<b>-13%</b> (-9%)	Sickness and increased staff turnover (see table above)
Development / management/support	<b>10%</b>	<b>19%</b> (15%)	<b>+9%</b> (+5%)	Additional training and induction of new staff
Total productive time	<b>90%</b>	<b>86%</b> (86%)	<b>-4%</b> (-4%)	
Non productive time	<b>10%</b>	<b>14%</b> (14%)	<b>+4%</b> (+4%)	

### **Factors Affecting Performance**

4. The shortfall of chargeable days was attributable to two principal factors:
  - higher than expected sickness levels, particularly in the case of two team members

- increased staff turnover, with the resultant recruitment and training of new team members, reducing the number of chargeable days achievable.
5. The higher level of sickness also increased our cost per audit day compared to the target. Some cost savings resulting from staff turnover saw the overall cost of Internal Audit as a proportion of the total County Council budget fall in comparison to the previous year.
6. After our original plan was prepared the Council was given approval to proceed with the One Council for Wiltshire reorganisation. This meant that we had to reassess our plan part way through the year, and some audits were taken out to make way for this important initiative. We aimed to ensure that the audits not done from the original plan were those of a relatively lower priority. These included the following, which are now 'work in progress' under our Audit Plan for 2008-09:
- Contract Management
  - Review of the CareFirst system
  - Direct Payments (being covered within Individual Budgets)
  - Schools' Funding and Financial Regime
  - Capital Projects
  - Early Years.

## ***Review of Audit Work 2007-08***

### **Significant Outcomes**

7. A summary of the most significant outcomes and issues arising from audit work carried out during the course of the year is set out in the following paragraphs.

### **Local Public Service Agreement (LPSA)**

8. The twelve performance targets across all services, which make up the LPSA, are worth a total of £10.5m in performance reward grant to the County Council, if all are achieved over the life of the LPSA. As part of this process we reviewed the arrangements for data collection in support of targets. This involved us in assessing whether data sources were appropriate, reliable and robust, and our work has now confirmed this. We will therefore be able to provide the required certificate to support the final claim for grant from central government, which will be submitted later this year.

## Debt Management

9. As part of our work on debtors and debt recovery, we worked with the Department of Community Services to address the issue of debt owed by the Primary Care Trust. As a result this was reduced from its previous year-end level of around £4m to less than £250,000.

## Counter-Fraud Activity

10. We have completed our investigations of the data matches supplied by the Audit Commission under the National Fraud Initiative. Most matches examined had satisfactory explanations, and the overpayments arising were due to administrative error and oversight rather than fraud. Recoveries amounting to £37,910 have been achieved from:
  - payments to care homes for deceased individuals (£21,769)
  - payments in respect of deceased pensioners (£2,028)
  - un-abated payments to re-employed pensioners (£12,587)
  - duplicated invoice payments (£1,526).
11. In a move to strengthen our resources for counter-fraud work, a member of the Internal Audit team has completed training to become an accredited counter-fraud specialist. This person has now worked with the Council's Risk Manager in order to incorporate fraud risk assessments across all departments into the Council's overall risk management arrangements. This has provided the basis for more proactive counter-fraud work to be included in our Audit Plan for 2008-09.

## Financial Management Standard in Schools (FMSiS)

12. As an integral part of the Council's work to improve financial management in schools, our programme of reviewing schools against the FMSiS has continued throughout the past year. Assessments completed to date have confirmed that 25 secondary schools and 42 primary schools have so far met the Standard.
13. This is a positive outcome of our approach to this topic, working closely with colleagues from the Children and Education Finance Team. The Council's overall proactive approach in this area has been recognised at national seminars by the Department for Children, Schools and Families. This programme of work will continue with the aim of assessing all schools against the Standard by 2010.

## Individual Budgets

14. This important national initiative aims to bring together the various sources of funding for the care of individual clients, the aim being for clients to organise their own support and choose how to spend their individual budgets. Our work as part of the internal project group looking at how to implement this measure has highlighted a number of issues which must be addressed, including:
- guidance to be given to clients
  - methods of monitoring and review
  - supporting records needed.
15. We prepared a joint report with the Department of Community Services' Head of Finance for the project group, recommending the controls which need to be incorporated, and work in this area will continue over the coming year.

## Risk Management

16. With the appointment of the County Council's Risk Manager in October 2007, we handed over responsibility for the operational aspects of risk management. As part of this transition, we were closely involved in the implementation of Excelsis, the information system acquired to support the newly-enhanced performance and risk management arrangements.

## One Council for Wiltshire

17. In addition to our normal 'business as usual' audits, we have undertaken a range of important work as part of the overall programme to establish the new Wiltshire Council with effect from April 2009. Specifically, this has incorporated the following:
- **Bid for Unitary Status;** In support of the initial bidding process, we worked to collect the base-data information from the district councils, to provide satisfactory evidence to the Audit Commission to support the combined figures contained within the County Council's bid to become a unitary authority. This helped contribute towards a successful outcome for the bid itself.
  - **Business Management Programme (BMP);** We were involved in monitoring the processes for shortlisting the preferred contractors for the BMP. We met the preferred contractors and discussed a range of potential risks and relevant internal controls. We also visited other local authority sites, to see the software in operation and discuss the transformation process with the users. We were then involved in the evaluation process for the final two tenders for the implementation and support of the SAP system. This project will replace several of the existing financial, procurement and HR systems, and as such is crucial for streamlining our business processes for the new council.

- **Internal Audit for the new Wiltshire Council;** planning the development of the internal audit function for the new council forms part of the internal governance and finance workstreams. We have earmarked a number of key tasks needed to achieve this, and are now working on these. Part of this involves joint working with district council audit colleagues in specific areas, with a view to a possible early merging of the audit function before April 2009.

## Reactive Work and Investigations

18. In addition to planned work, as in previous years, unforeseen issues inevitably arose during the course of the year, either from our own work or as a result of matters referred to us. In response we have carried out a number of reactive audits and investigations, covering the following:
  - **Adult Care Centre:** Concerns were raised regarding the use of various funds operated by the centre. A detailed investigation resulted in our findings being used in support of disciplinary action against the centre management.
  - **After Care:** Following an investigation of concerns raised across several areas, the conclusions of our report led to disciplinary action against the staff concerned.
  - **Copyright Music Files:** The unauthorised large-scale downloading of music files onto Council servers.
  - **Financial System Passwords:** The unauthorised transmission to an external e-mail account of usernames and passwords for our Payroll and HR system.
  - **Security of Sensitive Data:** Data files containing highly sensitive information being widely available across the IT network.
  - **Misuse of Mobile Phones, E-mail and Internet:** Numerous incidents involving the unauthorised use of mobile phones, and the abuse of e-mail and internet facilities, a number of which resulted in disciplinary action.
  - **Disposal of Laptops:** A breach of the secure disposal policy which resulted in laptops being sold on e-Bay.
  - **Freedom of Information Act (Fol):** Helping the process of responding to the many and diverse requests for information under Fol, by advising on responses and exemptions.
19. In addition to disciplinary action where appropriate, improvements in control procedures were agreed in all the above cases, in order to minimise the future risks in these areas as far as practicable.
20. A brief summary of further audit work and outcomes for 2007-08 is provided in the Appendix to this report.

## ***Audit Opinion on Internal Control***

21. The findings and conclusions of each audit assignment are accumulated throughout the year, and serve to inform our overall opinion on the internal control environment for the County Council as a whole.
22. Whilst we are unable to give an absolute assurance, the results of the audits completed during the year support an overall audit opinion that internal control is in place and is operating satisfactorily in relation to the various systems and procedures reviewed. There are no significant issues arising from our work, which need to be disclosed in the Annual Governance Statement for 2007-08.

-----



**Appendix****SUMMARY OF FURTHER AUDIT WORK AND OUTCOMES 2007-08*****Children and Education*****Budget Management**

Internal controls were considered to be good. Procedures are sound and are applied more consistently across teams. Previous audit recommendations have been implemented.

**Youth Development**

The internal control environment in relation to the areas covered by this audit was considered satisfactory. We had concerns regarding some aspects of financial administration at the centres with a need to address training requirements and update procedural guidance. We also felt planning and costing methods for youth projects could be improved.

**Vulnerable Children**

In following up our previous audit we concluded that the Department had responded positively to implementing our recommendations. Senior management has taken the lead in strengthening procedures, and good progress is being made. However, time is needed for the new processes to become fully embedded, therefore we will therefore carry out further follow-up work and report progress to the September meeting of this Committee.

**Schools Audits**

In addition to FMSiS assessments, other audit work connected with schools has included the following:

- Three audits were carried out in response to requests from the schools concerned. Findings were satisfactory in all cases.
- School Voluntary Funds: certificates have been obtained confirming that funds have been audited up to date. At one school we carried out the audit ourselves.
- School Buildings: we issued a general advice note following a review of various procedures.

***Community Services*****Home Care**

The audit evaluated the controls and procedures in operation over payments to Home Carers. These were found to be good. The issues raised will be addressed by updating the Procedures Manual.

**Safer Communities**

We audited a £600,000 grant claim for the Wiltshire element of the Safer and Stronger Communities Fund and certified that expenditure was in accordance with the terms of the Grant Determination.

**Delayed Transfers of Care**

We reviewed the adequacy of management information relating to delayed transfers of care. We identified the key recipients of information, and their information needs. We compared this to current provision, identified gaps, and advised on improvements.

**Advice**

In response to matters referred to us for advice, we have issued guidance notes in relation to the following:

- Procedures for the operation of amenity funds at outside establishments
- Security measures required over the keeping of receivership cash
- Supported employment, where concerns were raised regarding the engagement of an outside consultant.

***Environmental Services*****Budgetary Control**

We reviewed the processes in place within the department for controlling budgets and found these to be satisfactory.

**Highways**

We carried out an audit of the building and installation of a new bridge, including visits to the site and the contractor's premises. The savings made in the design and construction of the bridge were in line with forecasts. We also reviewed the operation of the highways contract and confirmed that the key performance indicator targets agreed in the contract were being met.

**Waste Disposal**

We undertook an in-depth audit of the information recorded on landfill weighbridge tickets to ensure the council was being correctly charged. Whilst we found no significant errors found in the weights recorded, we made a number of recommendations to ensure better control of information.

## **Corporate**

### **Financial Systems**

We reviewed and tested a range of controls within our core financial systems, in the following areas:

- General Ledger
- Accounts Payable
- Accounts Receivable
- Payroll

In all cases we found internal controls generally well established and working as intended, with no significant matters. The County Council's external auditors, KPMG, have used the results of our work to take some reliance for the purposes of their interim audit.

### **Performance Indicators (PIs)**

We reviewed the information systems supporting a sample of higher risk PIs, including targets for recycling, pedestrian crossings with facilities for the disabled, and public libraries standards. We were able to confirm the reliability of the information systems, which helped secure a positive outcome from the Audit Commission's subsequent review of the County Council's PIs.

### **Tenders**

Every formal tender opening was attended by a member of the Internal Audit team to ensure these were carried out correctly in accordance with the proper procedure.

### **Follow-up work**

We have undertaken regular follow-up of previous audit recommendations in accordance with agreed action plans. We are satisfied that audit clients are responding positively and taking action on previous audit recommendations, and there are no matters we need to bring to the attention of members.

---