



INFRASTRUCTURE & GOVERNMENT

**West Wiltshire District Council  
Internal Audit**

# **Annual Report 2005/06**

July 2006

AUDIT

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# 1. Executive Summary

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## Introduction

KPMG have provided the internal audit service to West Wiltshire District Council ("the Council") for the year ended 31 March 2006. This work was carried out in accordance with the Internal Audit Plan, approved by the Scrutiny Committee, and was designed to allow us to make a statement on the adequacy and effectiveness of the Council's risk management, control and governance processes in place.

This Annual Report sets out:

- our assessment of the adequacy and effectiveness of the Council's risk management, control and governance processes;
- the work undertaken to formulate our assessment;
- the key issues arising from our audit work and any issues relevant to the preparation of the Statement on Internal Control; and
- the performance of the internal audit function against the plan for the audit year.

## Role of Internal Audit and Management

The primary responsibility for maintaining risk, control and governance arrangements rests with the Council and its officers.

It is the Council's responsibility to establish and maintain the systems of internal control so that activities are conducted in an efficient and well-ordered manner. The responsibility for the prevention and detection of irregularity rests with the Council. We plan our work so that we have a reasonable expectation of identifying where potential for material fraud exists but our audit work should not be relied upon to identify all such areas nor to disclose all fraud and/or irregularities that may exist.

As internal auditors we are required to provide the Council with an opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes. In giving this opinion it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes.

## Planned coverage and output

We have completed work on all of the reviews identified in the internal audit plan for 2005/06, with the exception of the review of the Council's arrangements for the production of 2005/06 performance indicator information. We envisage that all audit work relating to this review will be complete by July 2006 when the Council has received data from third parties such as the County Council.

Further analysis of our input is provided in section two of this report.

# 1. Executive Summary (continued)

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## Internal Audit Recommendations

As a result of the reviews that we have undertaken over the course of 2005/06, we have made 34 recommendations as to how the Council's risk management, control and governance arrangements can be further enhanced. We set out in sections two and three of this report details of areas in which we have made recommendations.

## Performance of the internal audit service

The internal audit service has complied with the CIPFA code of practice on internal audit in the United Kingdom throughout the year.

## Basis of opinion

As internal auditors, we are required to provide the Council with an opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes. In assessing the level of assurance to be given, we based our opinion on:

- All audits undertaken during the year;
- any significant recommendations not accepted by management and the consequent risks;
- a comparison of our input during the year with that planned, placed in the context of internal audit need;
- the effects of any significant changes in the Council's objectives or systems; and
- any limitations which may have been placed on the scope of the internal audit service.

# 1. Executive Summary (continued)

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## Audit opinion

We have reviewed the Council's systems in accordance with the 2005/06 Internal Audit Plan as detailed in Appendix B. Our audit opinion for 2005/06 is as follows:

### **Audit Opinion 2005/06**

Based on the reviews undertaken during 2005/06, in our opinion the Council has adequate and effective risk management, control and governance processes to manage the achievement of its objectives. Notwithstanding our overall opinion, our work identified a number of opportunities for improving controls and procedures. However, we are satisfied that the actions that the Council plans to take will, if implemented satisfactorily, resolve these deficiencies in internal control, risk management and governance in an appropriate manner.

## Acknowledgements

We would like to take this opportunity to thank all those staff throughout the Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting processes.

## 2. Planned coverage and outputs

### Actual reviews against planned reviews

The annual plan, approved by the Scrutiny Committee, provided for a total of seven reviews, as shown in Appendix B.

### Review Opinions

From April 2005 four categories of audit report ratings were introduced: good, satisfactory, weak and unacceptable. In determining risk ratings, we have considered the number and priority rating of the recommendations raised in each review. For all reviews undertaken to date, we were able to give a satisfactory or good opinion. All ratings are shown in the table below:

#	Assignment	Report Rating
1	Risk management	Good
2	Licensing act	Good
3	CPA performance plan	Good
4	Requirement for savings	Good
5	Contractor delivery *	Satisfactory
6	Internal control – Income, debtors and cash receipting	Satisfactory
	Internal control – Payments to creditors	Good
	Internal control – Payments to councillors and staff	Good
	Internal control – Council tax and national non-domestic rates	Good
	Internal control – Housing benefit and council tax benefit	Good
	Internal control – The operation of the financial ledger	Good
	Internal control – Treasury management	Good
7	Performance measurement	No opinion due to nature of work

**\*The Contractor Delivery report included the one high priority recommendation made in the audit reports produced during the year. The detail of the recommendation can be found in Appendix A.**

## 2. Planned coverage and outputs (continued)

In this section we highlight the headline issues arising from our work undertaken in 2005/06:

	Review	Key issues arising
1	Risk management	<p>The Council's approach to risk management continues to develop strongly and it has in place a robust risk management policy and strategy. However, we identified two areas for control improvement:</p> <ul style="list-style-type: none"> <li>▪ High level of reliance on key individuals in the coordination and promotion of risk management.</li> <li>▪ No corporate approach to the management of risk in partnership working arrangements.</li> </ul>
2	Licensing act	<p>The review identified a number of good areas of practice including the establishment of a Licensing Committee, the publication of a statement of licensing policy and robust procedures in place for the processing of applications. Our work also identified the following areas where controls could be further strengthened:</p> <ul style="list-style-type: none"> <li>▪ The Council should broaden the programme of training made available to members.</li> <li>▪ The Council should develop a register of licenses, containing such information as required under the Licensing Act.</li> <li>▪ The Council should seek to develop a robust mechanism for assessing the effectiveness of its licensing activities.</li> </ul>
3	CPA performance plan	<p>Our review identified several areas of good practice in respect of the CPA Improvement Plan such as the establishment of a corporate plan, the development of a robust performance management system and the use of alternative methods of service delivery and funding such as the affordable housing PFI scheme. The review also identified the following areas where it was considered the controls could be improved:</p> <ul style="list-style-type: none"> <li>▪ The role and objectives of the Local Strategic Partnership (LSP) need to be clearly defined and its performance reviewed periodically.</li> <li>▪ Performance of the Council in respect of specified areas of service should be periodically reported to the users of the Council.</li> <li>▪ The development of a performance management training programme.</li> </ul>
4	Requirement for savings	<p>The Council has implemented robust arrangements to ensure that the aims of the Gershon agenda, and the implications of it on the Council's activities, are communicated effectively to Councillors and officers.</p> <p>It has, furthermore, adopted a coordinated approach to identifying potential efficiency gains and has worked with directors and service managers to identify the actions required to secure the cash releasing and non-cash releasing efficiency gains that it wishes to achieve. However, the review did identify areas for improvement which included the following:</p> <ul style="list-style-type: none"> <li>▪ Insufficient mechanisms for identifying the magnitude of efficiency gains and for ensuring quality is maintained.</li> </ul>

## 2. Planned coverage and outputs (continued)

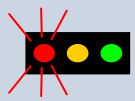
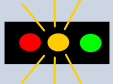
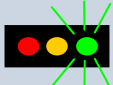
In this section we highlight the headline issues arising from our work undertaken in 2005/06:

	Review	Key issues arising
5	Contractor delivery	<p>The Council takes a robust approach to the management of service delivery under contract and has good arrangements in place to develop and maintain effective working relationships with contractors. The Council also has robust arrangements in place to develop and administer contracts. However, there is scope for the Council to improve the efficiency and effectiveness of its contract management activities in the following areas:</p> <ul style="list-style-type: none"> <li>▪ Work performed by contractors is not always included in contract terms.</li> <li>▪ No corporate approach to monitoring contractor performance.</li> <li>▪ Scope to improve mechanisms in place to ensure continuity of staff in the management of contracts.</li> <li>▪ No guidance for staff regarding the Council's approach to the management of contracts.</li> </ul>
6	Internal control	<p>The control environment surrounding the Council's core financial systems is, in general, robust. However, we identified a small number of areas where the control environment can be further improved, and have made appropriate recommendations in the relevant individual system reports as to how this can be achieved. These included:</p> <ul style="list-style-type: none"> <li>▪ The efficiency of the system for identifying and recovering car park penalty fees can be improved.</li> <li>▪ No agreed policy regarding the recovery of car park penalty fees.</li> <li>▪ No formal contract between the Council and its commercial property agent.</li> <li>▪ Leases between the Council and its commercial property tenants are not consistently signed in a timely manner.</li> <li>▪ The Council does not recognise unpaid penalty fees or property rent as debtors in its financial accounts.</li> </ul>
7	Performance measurement	Not yet complete



### 3. Implementation of recommendations

Following each review, we make recommendations as to how the Council's control environment can be improved. Each recommendation is allocated a priority as follows:

Priority	Explanation
	High - (Priority One): Issues arising referring to important matters that are fundamental and material to the system of internal control. The matters observed might cause a system objective not to be met or leave a risk unmitigated and need to be addressed as a matter of urgency.
	Medium – (Priority Two): Issues arising referring mainly to matters that have an important effect on the controls but do not require immediate action. A system objective may still be met in full or in part or a risk adequately mitigated, although the weakness represents a significant deficiency in the system.
	Low – (Priority Three): Issues arising that would, if corrected, improve internal control in general but are not vital to the overall system of internal control.

The Council's officers respond to each of our recommendations stating what action will be taken to implement the recommendations. As can be seen from the table to the right, for 2005/06, 100% of recommendations that have been formally responded to have been fully accepted by the Council and action is underway to implement them.

In accordance with our terms of reference and annual plan, we will follow-up all recommendations made, in order to ascertain whether the risks or issues identified have been addressed appropriately.

Recommendations	Priority 1	Priority 2	Priority 3	Total
Raised	1	18	15	34
Accepted in full	1	18	15	34
Total	1	18	15	34

As part of our internal audit work we review recommendations which we have made previously in order to ensure that they have been implemented satisfactorily. In the current internal audit year we followed up a total of 26 recommendations from 2004/05 and note that the majority had been implemented.

The following table details the areas in which we followed up previous recommendations, the number of recommendations made and their current status.

Recommendations	Priority 1	Priority 2	Priority 3	Total
Raised	7	9	10	26
Accepted in full	5	9	10	24
Not accepted	2	0	0	2

The first recommendation not accepted related to the siting of a CCTV camera in the Cashiers area to provide additional security when cash was being counted for banking. The Council's Officers did not consider it would provide additional security as areas of the Cashiers office would be un-sited. An area within the Cashiers office out of public view was identified.

The second recommendation concerned the Council establishing why new employee forms had not been authorised by the appropriate service manager. The Council's Officers did not consider it necessary as further controls within the recruitment process confirmed the validity of the appointments.

## 4. Performance of internal audit

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### Compliance with Standards

Based upon our ongoing assignment and client review processes, together with the results of our quality assurance arrangements, we believe that our work has complied with the CIPFA code of practice on internal audit in the United Kingdom.

### Quality control

KPMG's aim is to provide a service that maintains consistently high standards. This is achieved through the following internal processes:

- Preparation of a detailed audit plan which is reviewed by the Engagement Partner prior to submission to the relevant Committee for approval;
- Regular review of progress against the plan to monitor the delivery of work we have undertaken to perform;
- A tailored audit approach using a defined methodology and assignment control documentation which is subject to the firm's review protocol;
- The use of qualified, appropriately trained and experienced staff;
- Monitoring of performance against targets;
- Review of all audit files by the Audit Manager; and
- Review of all audit reports by the Senior Manager.

### Liaison with external audit and other third parties

Throughout the year, we have liaised with the Audit Commission as the Council's external auditors, in order to ensure that they can place maximum reliance on our work.

We have enjoyed an effective working relationship with the Audit Commission, and look forward to maintaining this in the future.

## 4. Performance of internal audit (continued)

### Staffing

We recognise that the Council wishes to see its internal audit service make a positive contribution and, as a consequence, this requires a high level of experienced and qualified staff to bring appropriate levels of expertise. We have highlighted below details of the audit team who have been working for you:



Saverio DellaRocca, Senior Manager, ensures that our robust quality assurance mechanisms are adhered to.



Neil Hankinson, Manager, oversees the delivery of our services and liaises with members and senior management.

Simon Perks, Assistant Manager, coordinates the delivery of our services on a day to day basis, and manages our on site work.



This core team is assisted by a range of audit and advisory staff from our public sector practice.

Will Carr, Partner, continues to be responsible for the overall delivery of our services.

We recognise the importance of continuity in our staffing arrangements. Our audit philosophy is based on the development of long term relationships between our clients and our service teams. We intend to provide continuity to ensure that a good working relationship is established and maintained. In this regard, we would normally expect staff to progress to more senior roles within the audit team over a period of time.

# Appendix A - Summary of high priority recommendations

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We have set out below details below of the priority one recommendation that we have made during the year.

## **Contractor Delivery – The Council’s approach to the management of contracts**

### **Preparation of contracts**

The Council operates in a dynamic environment, and includes in contracts the provision for changes to the level, method and scope of services to be delivered. The Council has, however, identified that some activities undertaken by contractors on its behalf are not reflected in the contracts in place with these providers. This relates in particular to the Council’s refuse collection contract, the scope of which has changed significantly since the introduction of recycling and composting collection services.

If work is done by contractors outside the scope of the contracts between them and the Council, the Council may not be protected by the terms of these contracts.

### **Recommendation:**

**The Council should ensure that all work performed by its contractors is included in the relevant contract or appropriate subsequent agreements.**

## Appendix B – Performance against the 2005/06 plan

We have set out below details of our progress against the 2005/06 annual internal audit plan.

#	Assignment	Status
1	Risk management	Complete
2	Licensing act	Complete
3	CPA performance plan	Complete
4	Requirement for savings	Complete
5	Contractor delivery	Complete
6	Internal control – Income, debtors and cash receipting	Complete
	Internal control – Payments to creditors	Complete
	Internal control – Payments to councillors and staff	Complete
	Internal control – Council tax and national non-domestic rates	Complete
	Internal control – Housing benefit and council tax benefit	Complete
	Internal control – The operation of the financial ledger	Complete
	Internal control – Treasury management	Complete
7	Performance measurement	Ongoing