

Agenda Item No.7

Title: **Internal Audit Reports**

Lead Member: **CIlr H Osborn - Chair of Audit Committee**

Reporting Officer: **Ian Jamieson - Head of Finance**

Purpose

To consider the following Internal Audit reports:

- 1 Payroll
- 2 Private sector Housing
- 3 Cash office review

Background

KPMG provide the internal audit service to the Council. The work has been carried out in accordance with the Internal Audit plan approved by Corporate Management Team and the Audit Committee. The plan is designed to allow an opinion to be given on the adequacy and effectiveness of the Council's risk management, control and governance processes.

Key Issues

Each internal audit assignment is risk rated as either good, satisfactory, weak or unacceptable. All recommendations are prioritised as high, medium or low. The results from the three audits are summarised in the table below:

	Risk rating	High	Medium	Low
Payroll	Good	0	0	0
no recommendations				
Private Sector Housing	Weak	3	7	1
accepted		3	7	1
Cash Office review	Special review	0	2	2
accepted		0	2	2

Payroll

This report identified nine areas of good practice. There were no areas for further development. The report concluded there is an adequate and effective system of risk management, control and governance. Rating Good



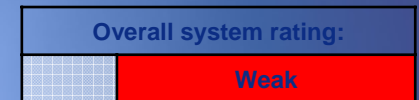
INFRASTRUCTURE AND GOVERNMENT

Private sector housing renewal

West Wiltshire District Council

DRAFT: 15 June 2007

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This report is provided pursuant to the terms and conditions of our internal audit services engagement. The disclosure and review of this document should be made in line with the agreements that we have already reached with West Wiltshire District Council.

1. Executive summary

Conclusion

As internal auditors of West Wiltshire District Council (the Council), we are required to give an annual overview of the systems of internal control. In arriving at this overview, we give a conclusion on the individual systems reviewed during the year. Our conclusion is either that the system is good, satisfactory, weak or unacceptable. These are the conclusions used by the Government Internal Audit Standards. However, in giving our conclusion, it should be acknowledged that our work is designed to enable us to form an opinion on the quality of the systems examined based upon the work undertaken during our current review. It should not be relied upon to disclose all weaknesses that may exist and therefore the conclusion is not a guarantee that all aspects of the systems reviewed are adequate and effective.

From the work performed on Private sector housing renewal we consider that there is considerable risk that objectives may not be fully achieved. Significant improvements are required to enhance the adequacy and / or effectiveness of risk management, control and governance. As a result we have graded this area as Weak

Context

As part of internal audit's review of the general control environment within the Council, a review of Private sector Housing Renewal was undertaken. This was completed as part of the internal audit plan for 2006/07.

One of the Council's six 'spotlight' areas is to meet housing need within the district. As part of its activities in this area, the Council aims to enable and promote the availability of housing that provides safe, secure and healthy homes for the people of West Wiltshire.

One way in which the Council seeks to achieve this is through the provision of a range of grants and other assistance to qualifying households for the improvement or adaptation of their homes. The section has a budget of £960,000 in 2006/07, with a primary focus on Disabled Facilities Grants.

Acknowledgement

We would like to take this opportunity to thank your staff for their assistance and co-operation during our time on site.

1. Executive summary

This section of the report highlights the areas for development we have identified during the course of the review:

Areas for development

- Housing grant policies to comply with the Council's Constitution
- Charges to be placed on properties in receipt of decent homes grant
- A report to be submitted to Committee and the Head of Finance for properties on which the charge has been waived
- Provision of grant condition information to all grant applicants
- Development of a standard file structure to include all relevant information
- The budget monitoring process to include the Head of Housing Services
- The Council to introduce a schedule of rates for all contractors work
- Benchmarking of costs to be completed on an annual basis
- The Council to develop an approved list of contractors
- Requests for additional work to be reviewed by the Housing Services Manager before approval to proceed is granted.

1. Executive summary

We have assessed each finding in our report and assigned to it a priority, as follows:

High ●	Medium ●	Low ●
Issues arising referring to important matters that are fundamental and material to the system of internal control. We believe that 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.	Issues arising 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 but the weakness represents a deficiency in the system.	Issues arising that would, if corrected, improve the internal control in general but are not vital to the overall system of internal control.

The table below details the number of recommendations made, their priority and those accepted by management.

Recommendations	High	Medium	Low	Total
Made	3	7	1	11
Accepted				
Not Accepted	-	-	-	-

2. Detailed findings and recommendations

	Observation and Priority	Risk	Recommendation	Management response / officer responsible / date of action by
1	<p>Compliance with Constitution procurement procedures</p> <p>All Council employees are required to comply with the Contract procedures outlined in the Council Constitution.</p> <p>The Housing Renewal Section has developed its own procurement procedures which do not comply with the Constitution.</p> <p>For example, the cost of all grant applications is obtained by inviting two firms to quote for the work.</p> <p>A review of the Constitution identified that for expenditure over £10,000 three quotations are required.</p> <p>We understand that the Section is currently amending its procedures to require three quotations where required, and developing a preferred supplier list.</p> <p>Medium ●</p>	<p>The Housing Renewal Section does not maximise value for money in the use of Council funds.</p>	<p>The Housing Renewal Section should review their procedures to ensure they comply with the guidance laid out in the Constitution. In the future, any changes should be checked to the Constitution for compliance prior to their implementation.</p>	

2. Detailed findings and recommendations

	Observation and Priority	Risk	Recommendation	Management response / officer responsible / date of action by
2	<p>Enforcement of grant conditions</p> <p>The Council currently does not impose conditions on Decent Homes Grants. As of 1st January 2006, a charge should be registered with the Land Registry for 20 years following the work (previously a local land charge of five years). If the property is sold in this period, the grant is repayable to the Council.</p> <p>A review of eight grants completed in the last three financial years identified that five had no charge registered on them. The value of the five grants totalled £39,522.</p> <p>From discussion with staff, it would appear there has been no process established for the creation of such charges.</p> <p>It is understood that the Council plans to increase the number of grants of this type in the future. The longer charge period may lead to more instances of repayment in the future.</p> <p>High ●</p>	<p>The Council does not recover funding it is entitled to.</p>	<p>A system should be developed that clearly identifies the process by which charges are to be registered, and grants reclaimed.</p> <p>It is further recommended that the register of decent homes and house renovation grants is reviewed to ensure that a charge has been applied to all properties. A periodic review of the register of charges should be completed by the Housing Renewal Manager.</p>	

2. Detailed findings and recommendations

	Observation and Priority	Risk	Recommendation	Management response / officer responsible / date of action by
3	<p>Reporting of property charge waivers</p> <p>The Council's Housing Renewal Policy permits the waiver of a charge on a property in extenuating circumstances. However, the policy does not require such action to be reported to Cabinet. The Council Constitution states that all write-offs exceeding £300 require Cabinet approval.</p> <p>Medium ●</p>	<p>Inappropriate write off of monies due to the Council.</p>	<p>The Housing renewal Policy should be amended to include a direction that all waivers in excess of £300 should be reported to Cabinet.</p> <p>It is further recommended that all waivers are reported half yearly to the Head of Finance.</p>	
4	<p>Provision of grant condition information</p> <p>The administration of renovation and decent home grant applications is undertaken on behalf of the Council by a third party "Care and Repair". The Council does not provide the applicants with information concerning grant conditions and have only received verbal assurance from the third party that applicants are informed of grant conditions.</p> <p>Medium ●</p>	<p>The Council is unable to enforce the grant conditions.</p>	<p>The Council should ensure that the third party responsible for administering all grant applications provide the applicants with information in respect of the grant conditions.</p>	

2. Detailed findings and recommendations

	Observation and Priority	Risk	Recommendation	Management response / officer responsible / date of action by
5	<p>Procedure notes</p> <p>The section currently does not have a complete and up to date set of procedure notes.</p> <p>Medium ●</p>	<p>Staff may not achieve consistency when assessing applications and contractors.</p>	<p>Procedure notes should be updated and include;</p> <ul style="list-style-type: none"> ▪ how grants are to be approved; ▪ how eligibility to receive a grant is assessed; ▪ how contractors are to be selected and assessed; ▪ how grant conditions are explained to applicants; ▪ how grant conditions are to be implemented, monitored and reclaimed; and ▪ what is expected to be documented on site visits. 	

2. Detailed findings and recommendations

	Observation and Priority	Risk	Recommendation	Management response / officer responsible / date of action by
6	<p>File structure</p> <p>The audit completed in 2002 recommended the introduction of a checklist to identify the criteria for which a grant has been approved. A review of the files identified that a formal checklist had not been introduced, but reliance was being placed on the authority of an occupational therapist for disability grants and ad-hoc notes made by the Housing officers.</p> <p>It is considered that the level of information held on the files did not illustrate clearly the basis on which approval of the grant payment had been made.</p> <p>High ●</p>	<p>Inappropriate grant payments may be made.</p>	<p>A checklist be developed that clearly identifies all documents to be held on file.</p> <p>It is further recommended that all staff are informed of the requirements regarding documentation to be held on the file and that the files are reviewed monthly by the Housing Services Manager to confirm compliance with the instruction.</p>	

2. Detailed findings and recommendations

	Observation and Priority	Risk	Recommendation	Management response / officer responsible / date of action by
7	<p>Budget monitoring</p> <p>At the present time the budget monitoring is undertaken by the Housing Renewal Manager with a member of the Finance team. However, the Housing Services Manager is not informed of the budget position and therefore is not aware of the grants approved for payment.</p> <p>Medium ●</p>	<p>Grant applications may not be approved by the authorised officer.</p>	<p>The Housing Services Manager reviews the budget with both the Housing Renewal Manager and the member of Finance.</p>	

2. Detailed findings and recommendations

	Observation and Priority	Risk	Recommendation	Management response / officer responsible / date of action by
8	<p>Schedule of rates</p> <p>The previous audit recommended that the Council introduce a schedule of rates for all type of grant work being completed. This has not been implemented as it is considered that due to the speciality of the work the rates can vary.</p> <p>The provision of a schedule of rates would provide the Council with a means of assessing the value for money of quotes provided by its contractors.</p> <p>Medium ●</p>	Value for money is not achieved.	The Council should make further enquiries to ascertain if a schedule of rates can be established.	

2. Detailed findings and recommendations

	Observation and Priority	Risk	Recommendation	Management response / officer responsible / date of action by
9	<p>Benchmarking</p> <p>The Council completed a review of the costs associated with its Housing grants service in May 2005. It is understood that the exercise was to have been completed on an annual basis but no further reviews have been completed.</p> <p>Low ●</p>	Value for money is not achieved.	The Council to introduce benchmarking on an annual basis.	
10	<p>Approved list of contractors</p> <p>The creation of an approved list of contractors was recommended on completion of the previous audit.. However, the Council has only recently invited contractors to apply for inclusion on the approved list.</p> <p>High ●</p>	Value for money is not achieved.	The Council to develop the approved list as a priority.	

2. Detailed findings and recommendations

	Observation and Priority	Risk	Recommendation	Management response / officer responsible / date of action by
11	<p>Additional work</p> <p>At the present time additional work requested by the Contractor is approved by the Housing Renewal Officer and reported to the Housing Manager. However, this approval process does not allow the budget position or the validity of the work to be checked before it is commenced.</p> <p>Medium ●</p>	Value for money is not achieved.	All requests for additional to be reviewed by the Housing Services Manager before approval for it to commence is given. It is further recommended that a process of inspection be introduced to confirm the validity of the application.	

Appendix 1 – Follow up of internal audit report 03/2002

We have listed the actions being taken by the Housing Renewal section against the recommendations of report 03/2002 and listed our findings below:

Recommendation	Priority	Status or recommendation as at 17/11/06
The implementation of the CAPS system be re-activated, and completed as soon as possible.	High	Renovation grants module in place, to be upgraded to Housing Assistance Module when sufficient resources are available. Implemented
Consideration be given to applying to the MKA system developers to provide a short term licence to supply appropriate levels of support.	High	Not applicable MKA system no longer used.
A check list be introduced detailing all acceptable criteria for the appropriate grant, on which the grant officer will be required to identify the criteria for which the grant has been approved.	High	The Council have not introduced a formal checklist. For Disability grants the Occupational Therapist confirms they are eligible. This is relied upon by the Council. Relevant notes are also made on the application form. The Housing renewal policy sets out the eligibility criteria. Therefore the relevance of the information held on the files to illustrate the reasons for awarding the grant is inconsistent. Partly Implemented – Data captured in existing documentation. See recommendation 6
It is further recommended the Council review its grants policy to confirm compliance with other strategic and operational policies.	Medium	The Housing Policy was updated in October 2005 (Effective 1/1/06), and explicitly references the Council's Corporate Plan and Corporate strategy. Implemented
A formal monitoring system should be introduced immediately, with the grants officers reporting the monthly budget position to the Housing Manager.	High	The Principal officer reviews the Agresso finance system several times a week to ensure budgeted spend is on target. Actual spend and commitments are reviewed, including anticipated spend from the Home Improvements Agency based on number of enquiries. Quarterly meetings are held with Finance to discuss budget position. Implemented
The reconciliation between PALS and MKA should be completed monthly, and be included in the budget reporting process.	High	Monthly grant data from the CAPS system is reconciled to the Agresso finance system. Reconciliations were reviewed for April to September 2006. Evidence of investigation of reconciling items was present. Implemented

Appendix 1 – Follow up of internal audit report 03/2002

Recommendation	Priority	Status or recommendation as at 17/11/06
All payments to be approved and authorised by different officers. An authorised list of signatories should be agreed to ensure that two signatories are available at all times.	High	Approved by Grant officer on Report on application form and authorised on payment voucher by Housing Manager or Principal Housing Renewal Officer. Observed Finance have samples of both staff signatures on authorised signatory sheets. Implemented
All invoices to be submitted with payment vouchers. Payment should not be made if the invoice is not submitted.	High	The grants administrator, confirmed she raises payment vouchers for all payments. These are not held on file, but passed to Finance. The Finance Officer for Creditors confirmed this practice. The payment batch for 8th November was reviewed and payment vouchers were present for all Housing Renewal team payments. Implemented
A periodic review of payments be made by the Housing Manager to confirm compliance.	Medium	All payments requests are checked to invoice before the payment voucher is authorised for payment. All payments are authorised by the Housing Manager or Principal Officer. Implemented
The Council should introduce a schedule of rates as defined by the building industry, for all the types of grant work completed.	High	The Council has looked into this, but due to the speciality of the work the rates can vary to those published for general work. Experience and the obtaining of quotes will ensure value for money is achieved. Not Implemented
All work to be costed by the grants officer as identified in the schedule of rates, with the total value being used as the basis for evaluating the value of quotes.	High	No longer applicable, see above.
A benchmarking exercise be introduced with other local authorities, and a comparison of the costs quoted completed.	Medium	Benchmarking against CIPFA nearest neighbours performed in May 2005, to be repeated annually Implemented.
A periodic review of working files should be completed by the Housing Manager to confirm compliance with costing requirements.	Medium	Principal Officer reviews files when asked to approve high value payments or if issues arise. Costs are based on cheapest quotes, and not costed by the Council. Implemented

Appendix 1 – Follow up of internal audit report 03/2002

Recommendation	Priority	Status or recommendation as at 17/11/06
An approved list of contractors be created, and contractors invited to apply for inclusion on the list.	High	Council has recently invited suppliers to apply for inclusion in a preferred supplier list. Replies seen to confirm exercise in progress. Partially Implemented (See recommendation 10)
All contracts be awarded on the receipt of quotes, which should be recorded, and evaluated in accordance with the Council's policy.	High	All work is awarded following receipt of 2 written quotes, agreed to grant files. This is increasing to 3, which will bring the procedures into line with Council Policy. Implemented - but see recommendation 1 in previous section
The practice of informing contractors of the value of all other quotes be stopped immediately.	High	A review of grant files confirm this has been stopped by the Council. The Home Improvements Agency (Care & Repair) still advises unsuccessful tenderers of the lowest quote received. The Council states it has told the Agency to stop this practice. Implemented
The Council's Legal Officer be requested to advise and produce a legal document in respect of contracts awarded.	High	No contract exists between the contractor and Council. The applicant contracts with the Contractor. Not applicable
A formal policy be issued in respect of recommended practices for inspections.	High	Nothing explicit has been included in the policy. The procedure notes are being updated and are not explicit. Staff work shadow when they join and experience is relied upon to ensure everything is covered in inspections. Outstanding – see recommendation 3 in previous section
All inspections to be formally recorded on an inspection form and signed by the grants officer completing the inspection, and a contractors representative. All forms to be held on file.	High	Client and Council sign the final grant payment form, the contractor doesn't sign as there is no contract between the Council and Contractor. A record of site visits is maintained on the inspection sheet as a diary note. Implemented
A quality control process be introduced for the review of contractors performance.	Medium	No process is yet in place. Outstanding

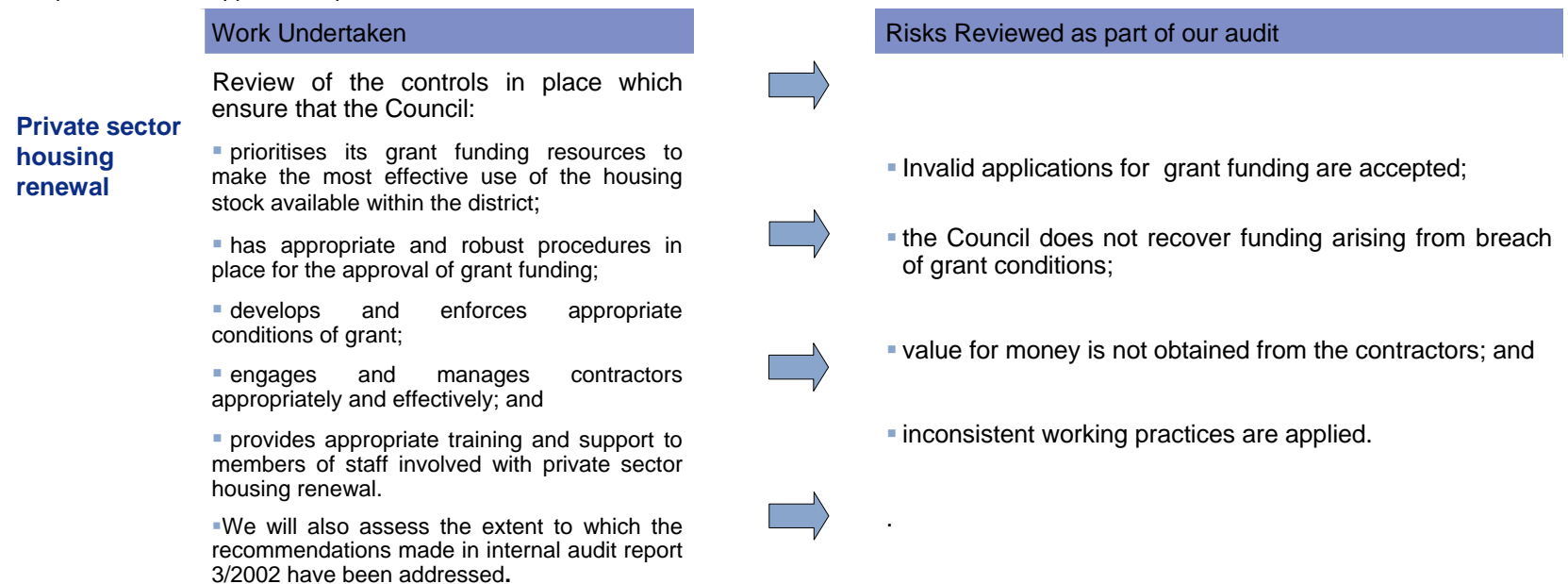
Appendix 1 – Follow up of internal audit report 03/2002

Recommendation	Priority	Status or recommendation as at 17/11/06
A policy for the application and approval of additional works be introduced, with the approval of all works being the responsibility of the Housing Manager, or a nominated officer.	High	The Housing Renewl Officer amends the Report on application, the revision is checked and signed. New approval form printed off and signed by Housing Manager or Principal Officer. Implemented
All requests to be completed on an approved application form stating the reason for the application and the cost. All approved additional works should be reported quarterly to the Housing Manager.	High	Requests for additional work are now approved by the Housing Manager or his Principal Officer. Implemented
A sample of additional works be inspected to confirm the validity of the work completed.	Medium	A final inspection is undertaken for all works to confirm that additional works have been completed satisfactorily before final payment will be made. Implemented
All documentation supporting the means test calculation to be held on the file, and use of the IT system be considered to complete the test.	High	Officers initial the application form to confirm what evidence they have seen. The team is looking into portable photocopiers to copy documentation on site for the file and the use of the FERRET IT system. In progress
A logging system be introduced that records the date of initial enquiry, and all other relevant dates to allow the performance of the agency to be monitored.	Medium	Inspection Sheet has action taken and dates on. The computer database is updated with dates of applications and approvals. Implemented
The performance of the agency to be reviewed quarterly by the Housing Manager.	Medium	The Housing Renewal Manager performs a quarterly review of the number of households helped by the Council and its partners. He meets Finance and his Service Manager quarterly to discuss position against budget. Implemented
Performance targets to be reviewed.	Medium	The Housing Renewal Manager annually reviews the time taken from enquiry to approval and from approval to completion of grant works. Implemented

Appendix 2 - Summary of work done and risks reviewed

Our work involved:

- develop an understanding of the Council's approach to the use of grants to promote private sector housing renewal, through discussions with appropriate officers and a review of relevant documentation ;
- review a selection of grant applications and awards, in order to assess the operation of this approach in practice.
- identify any areas in which further action is required.



Private Sector Housing Renewal

This report highlighted 10 areas for development and concluded that there is considerable risk that service objectives may not be fully achieved. Significant improvements are required to enhance the adequacy and/or effectiveness of risk management, control and governance. Rating Weak. The full report is attached in Appendix 1.

Cash office review

This review was carried out to look at procedures leading up to the closure of the cash office and a system discrepancy. No weaknesses were identified in the Council's financial control environment. There were four recommendations all of which have been implemented.

Effect on strategies and codes

The internal audit opinion supports the 'sound financial management' principle.

Risk Management implications

These are contained within the report.

Financial and performance implications

There are no financial implications.

Legal and human rights implications

There are no direct legal or human rights implications.

Next steps

Recommendations will be implemented as detailed in the individual internal audit report action plans. The 2007/08 internal audit work will review progress on implementation.

Recommendations

The Audit Committee:

- Reviews the internal audit reports
- Reviews progress of actions taken to implement internal audit recommendations.

Background Papers: Final Accounts Working Papers – Room 35