

Agenda Item No.11

Title: **Internal Audit Reports**

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

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

Purpose

To consider the following Internal Audit reports:

- 1 Council Tax and NNDR
- 2 Housing Benefit and Council Tax Benefit
- 3 Workforce Planning
- 4 Accountancy and Budgetary Control
- 5 Contracts
- 6 Annual Internal Audit report

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
Council Tax and NNDR	Good	0	0	1
accepted		0	0	1
Housing Benefit and Council Tax benefit	Good	0	1	2
accepted		0	1	2
Accountancy and Budgetary Control	Good	0	0	3
accepted		0	0	3

	Risk rating	High	Medium	Low
Contracts	Good	0	0	0
No recommendations		0	0	0
Annual Internal Audit Report				
accepted				

Council Tax and NNDR

This report identified ten areas of good practice. There was one area for further development. The report concluded there is an adequate and effective system of risk management, control and governance to address the risk that objectives are not fully achieved.

Housing Benefit and Council Tax Benefit

This report highlighted seven areas of good practice. There were three areas for further development. The report concluded that minor improvements are required to enhance the adequacy and / or effectiveness of risk management, control and governance.

Accountancy and Budgetary Control

This report highlighted five areas of good practice. There were four areas for further development. The report concluded that there is an adequate and effective system of risk management, control and governance to address the risk that objectives are not fully achieved.

Contracts

The Council has recently let a new contract for the provision of waste collection services and is in the process of letting a contract for the provision of green space management and street cleansing services. This audit was carried out to review the arrangements in place for these contracts. From the work performed on the Council's arrangements for developing specifications for the waste collection and green space management and street cleansing contracts, the auditors consider that there is an adequate and effective system of risk management, control and governance to address the risk that objectives are not fully achieved.

Annual Internal Audit Report

The auditors have reviewed the Council's systems in accordance with the 2006/07 internal audit plan. The report concludes that the Council has adequate and effective risk management, control and governance processes to manage the achievement of its objectives.

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.



INFRASTRUCTURE & GOVERNMENT

**West Wiltshire District Council
Internal Audit**

Annual Report 2006/07

November 2007

AUDIT

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This Report has been prepared on the basis set out in our contract with West Wiltshire District Council (the Client), and should be read in conjunction with the contract.

This Report is for the benefit of only the Client and the other parties that we have agreed in writing to treat as addressees of the contract (together the Beneficiaries), and has been released to the Beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without our prior written consent.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the contract.

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1. Executive Summary

Introduction

KPMG have provided the internal audit service to West Wiltshire District Council (“the Council”) for the year ended 31 March 2007. This work was carried out in accordance with the Internal Audit Plan, approved by the Audit 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 2006/07 and are in the process of agreeing final reports with the Council. Further analysis of our input is provided in section two of this report.

1. Executive Summary (continued)

Internal Audit Recommendations

As a result of the reviews that we have undertaken over the course of 2006/07, we have made 26 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)

Audit opinion

We have reviewed the Council's systems in accordance with the 2006/07 Internal Audit Plan as detailed in Appendix A. Our audit opinion for 2006/07 is as follows:

Audit Opinion 2006/07

Based on the reviews undertaken during 2006/07, 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 Audit Committee, provided for a total of 15 reviews, as shown in Appendix A. We have to date completed all of the reviews and are in the process of agreeing final reports with the Council.

Review Opinions

Where it is considered appropriate we allocate one of four categories of audit report ratings: good, satisfactory, weak and unacceptable. In determining risk ratings, we have considered the number and priority rating of the recommendations raised in each review. With the exception of the review of the system for the allocation of private sector housing renewal grants we were able to give a good opinion. All ratings are shown in the table below:

#	Assignment	Report Rating
1	Access to recreation	Good
2	Review of Academy performance data	*No opinion due to nature of work
3	Workforce planning	Good
4	Private sector housing renewal grants	Weak
5	Local land charges	*No opinion due to nature of work
6	Income, debtors and cash receipting	Good
7	Payments to creditors	Good
8	Payroll	Good
9	Council tax and national non-domestic rates	Good
10	Housing benefit and council tax benefit	Good
11	The operation of the financial ledger	Good
12	Treasury management	Good
13	Cash office –cash loss	*No opinion due to nature of work

* The scope of the work undertaken in this type of review does not require an evaluation of the control environment, but the provision of a robust challenge to work completed by the Council with regards to the specific area of service delivery.

2. Planned coverage and outputs (continued)

In this section we highlight the headline issues arising from our work undertaken in 2006/07:

	Review	Key issues arising
1	Access to recreation	<p>The Council aims to provide a wide range of well planned and managed leisure and recreational opportunities that meet the needs of residents and return high levels of customer satisfaction. The review identified that the Council had robust arrangements in place with regards to:</p> <ul style="list-style-type: none"> ▪ Understanding of recreational opportunities. ▪ Determining recreational needs. ▪ Identifying ways of meeting needs. ▪ Securing funding. ▪ Engaging with stakeholders
2	Review of Academy performance data	<p>A review was completed of amendments made to the performance data on the Academy system. The amendments involved the calculation of performance information relating to the time taken to process new benefit claims and changes in circumstances relating to existing claims. The review identified that the amendments had been made to address a system weakness.</p>
3	Workforce planning	<p>A review of the Council's arrangements for the recruitment and retention of its workforce identified that it has robust arrangements in place in respect of:</p> <ul style="list-style-type: none"> ▪ Understanding the workforce requirements. ▪ Developing appropriate strategies. ▪ Identifying barriers to recruitment and retention. ▪ Monitoring effectiveness.
4	Private sector housing renewal grants	<p>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. The provision of private sector housing renewal grants is one source through which the Council aims to achieve this objective. However, the review of the system for the provision of such grants identified a number of control weaknesses including:</p> <ul style="list-style-type: none"> ▪ Charges not placed on properties in receipt of a decent homes grant . ▪ Absence of an approved list of contractors. ▪ Absence of a schedule of rates for all contractors work ▪ The housing grant policies differing to the Council's constitution with regards to such things as debt write off.

2. Planned coverage and outputs (continued)

In this section we highlight the headline issues arising from our work undertaken in 2006/07:

	Review	Key issues arising
5	Local land charges	The Council has a statutory obligation to maintain a register of land charges, to allow public access to this register and to undertake searches of this register on behalf of its fee-paying customers. The Council has identified a series of actions that it wishes to take to develop its local land charge services, in order to ensure that they continue to meet the needs of its customers. A review of the proposed actions as detailed in a business plan confirmed the robustness and accuracy of the information supporting the proposed actions.
6	Financial Systems	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: <ul style="list-style-type: none"> ■ The creditor bank account reconciliation to be prepared and independently reviewed on a timely basis. ■ The Council to review all housing benefit overpayment debtors in excess of three years old and identify appropriate debts for write off.
7	Cash office –cash loss	In December 2006, the Council identified that the cash balance held at its cash office at the end of one day was £500 lower than the balance indicated by records on the cash receipting system. An internal review conducted by the Head of Finance and the Systems Accountant the day after the discrepancy was found could not identify the cause of the discrepancy. The Head of Finance requested KPMG to completed an independent review of the of the operation of the cash office on the day the discrepancy occurred. This review which was undertaken within one week of the discrepancy being found reached the same conclusion as the internal investigation.

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
One High	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.
Two Medium	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.
Three Low	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 2006/07, 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	4	13	9	26
Accepted for implementation	4	13	9	26
Total	4	13	9	26

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 33 recommendations accepted for implementation of which 26 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	18	15	-	33
Accepted for implementation	18	15	-	33
Implemented	13	13	-	26
Not implemented	2	2	--	4
No longer applicable	3	-	--	3

The two priority 1 and one of the priority 2 recommendations not implemented related to the Private Sector Housing Renewal system. The recommendations concerned the introduction of a schedule of rates, the development of an inspection policy and the review of contractors performance. All three recommendations have been re-issued.

The second priority 2 recommendation concerned the creation of a debtor entry in the Council's financial accounts for car park penalty fees. Further clarification of this recommendation was provided to the Finance section during the course of the audit.

The three recommendations no longer applicable were due to a change in the Council's system for the management of Private Sector Housing Renewal Grants.

4. Performance of internal audit

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 Director.

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, Director, 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 – Performance against the 2006/07 plan

We have set out below details of our progress against the 2006/07 annual internal audit plan.

#	Assignment	Status
1	Access to recreation	Complete
2	Review of Academy performance data	Complete
3	Workforce planning	Complete
4	Private sector housing renewal grants	Complete
5	Local land charges	Complete
6	Income, debtors and cash receipting	Complete
7	Payments to creditors	Complete
8	Payroll	Complete
9	Council tax and national non-domestic rates	Complete
10	Housing benefit and council tax benefit	Complete
11	The operation of the financial ledger	Complete
12	Treasury management	Complete
13	Cash office –cash loss	Complete
14	Pay reform project	Complete
15	Contract Procurement	Complete