



INFRASTRUCTURE, GOVERNMENT & HEALTHCARE

**West Wiltshire District Council
Internal Audit**

Annual Report 2008/09

26th January 2009

AUDIT

Contents

1. Introduction	3
2. Our audit opinion	4
3. The work that we have undertaken	5
4. Significant findings	6
5. Acceptance and implementation of recommendations	10
6. Our compliance with audit and quality standards	12
7. The audit team	13
Appendices	
A Performance against the 2008/09 plan	14

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1. Introduction

Introduction

KPMG has provided the internal audit service to West Wiltshire District Council ("the Council") for the year ended 31 March 2009. Our work was carried out in accordance with the Internal Audit Plan, approved by the Audit Committee, and was designed to allow us to provide an opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes.

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
- 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, that only reasonable assurance can be provided that there are no major weaknesses in these processes.

Planned coverage and output

We have completed our work on all of the reviews identified in the internal audit plan for 2008/09. As a result of the reviews that we have undertaken over the course of 2008/09, we have made 11 recommendations as to how the Council's risk management, control and governance arrangements can be further enhanced. Further details in respect of the work that we have undertaken, together with our significant findings, is set out in the remainder of this report.

2. Our audit opinion

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.

Audit opinion

We have reviewed the Council's systems in accordance with the 2008/09 Internal Audit Plan as detailed in Appendix A. Our audit opinion for 2008/09 is as follows:

Based on the reviews undertaken during 2008/09, 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 minor opportunities for improving controls and procedures.

Acknowledgements

We would like to take this opportunity to thank all those members and officers 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.

3. The work that we have undertaken

Our work and our conclusions

The annual plan, approved by the Audit Committee, provided for a total of 12 reviews. We have completed all of these reviews and have agreed our reports with the Council. We have also undertaken one additional review at the request of the Council.

Where it is appropriate, we allocate one of four categories of audit report ratings: good, satisfactory, weak and unacceptable. In determining these ratings, we have considered the number, nature and priority of the recommendations raised in each review. The ratings that we have given for each of the reviews undertaken are shown in the table below:

#	Assignment	Report Rating
1	Accounts preparation	No opinion due to nature of work *
2	Cash income	Satisfactory
3	Local housing allowances	Good
4	Commercial waste collection	No opinion due to nature of work *
5	The five towns initiative	No opinion due to nature of work *
6	Income and debtors	Good
7	Expenditure and creditors	Good
8	Payroll	Good
9	Council tax and national non-domestic rates	Good
10	Housing benefit and council tax benefit	Good
11	Treasury management	Good
12	Accounting and budgetary control	Good
13	National non-domestic rates discretionary relief	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.**

4. Significant findings

In this section we highlight the headline findings and issues arising from our work undertaken in 2008/09:

Review	Key findings
Accounts preparation	<p>We reviewed the Council's principal working papers used in the preparation of its financial statements for the financial year 2007/08.</p> <p>For each of the elements of the Council's financial statements that we reviewed, we assessed whether:</p> <ul style="list-style-type: none"> • balances had been calculated in accordance with the Council's own guidance; • the underlying figures agreed to the Council's general ledger; • satisfactory explanations existed for significant variations from the relevant balances in the previous financial year; and • the small number of minor issues that we had identified were being addressed. <p>Subject to a small number minor issues that we raised in our report, we concluded that the Council's working papers underlying the balances in the financial statements for the financial year 2007/08 had been calculated and presented in accordance with the Council's own guidance.</p>
Cash income	<p>We undertook a review to identify the barriers to the reduction of income received in the form of cash and cheques across certain departments within the Council and to determine how these could be overcome.</p> <p>We identified a number of areas which pose a barrier to the reduction of income received by cash and cheques:</p> <ul style="list-style-type: none"> • the Council's web pages for individual services were not up-to-date, as they did not communicate clearly to service users the payment options available; • the application forms used by the Council for a number of its services, such as planning and building control applications, indicated only cash and cheques as payment options; and • there was scope for the Council's business processes to be amended, so that – to the greatest extent possible – cheque (and cash) payments are no longer accepted by the Council when an application form is received in respect of specific services.

4. Significant findings (continued)

Review	Key findings
Local housing allowances	<p>We undertook a review of the design of the system and controls across the Council in respect of the processing and payment of local housing allowances.</p> <p>We concluded that the systems and controls that the Council had developed were designed so as to ensure adequate and effective risk management, governance and control in respect of the processing and payment of local housing allowances.</p> <p>We reviewed the implementation of these systems and controls as part of our review of housing benefit and council tax benefit.</p>
Commercial waste collection	<p>The Council had considered the sale of its commercial waste service to Focsa Services UK Ltd ('Focsa'), its domestic refuse collection contractor. The Council had prepared a draft paper to Cabinet setting out details of the proposed sale, with a view to gaining approval to proceed. Our initial aim was to review this proposed course of action.</p> <p>However, following the issue of our draft report, Wiltshire County Council (WCC) indicated to the Council that it did not wish it to sell this service prior to the inception of the new unitary authority for Wiltshire in April 2009. Consequently, the findings from our review had been overtaken by events.</p> <p>We concluded that the sale of the service would be a viable short term measure, but may not be the best long term solution. A better option, in our view, would be to focus on reducing costs, improving efficiency and optimising charges with a view to developing a high quality, efficient service that achieves financial breakeven. The new unitary authority could then consider the future of the service in the context of its own longer term plans for commercial waste services.</p> <p>We set out our findings in the form of a discussion document, so that they could be shared with WCC, should the new unitary authority wish to consider the sale of the commercial waste service in the future. We did not, however, make any specific recommendations.</p>

4. Significant findings (continued)

Review	Key findings
<p>The five towns initiative</p>	<p>We undertook this review to assess the arrangements in place across the Five Towns Initiative to manage the outstanding capital projects that it is currently undertaking and to identify any significant risks to the successful completion of these projects.</p> <p>We identified a number of issues in respect of the projects being undertaken in Bradford-on-Avon and Melksham, and made recommendations as to how these issues could be addressed.</p> <p>We proposed that, as the Council sought to determine the most appropriate course of action with regard to the outstanding Five Towns Initiative funding that it holds in respect of ongoing projects, the Council should consider the issues that we had raised in our report as well as the suggestions that we had made.</p>
<p>Financial systems</p>	<p>We reviewed the processes and controls in place across the Council's core financial systems in order to assess whether the governance, risk management and internal control arrangements in place were robust.</p> <p>We concluded that the Council's governance, risk management and internal control arrangements in respect of the financial systems reviewed were, indeed, robust.</p> <p>We did, however, identify a small number of areas where the operation of these systems could be further enhanced and made appropriate recommendations in our individual reports on these financial systems.</p>

4. Significant findings (continued)

Review	Key findings
<p>National non-domestic rates discretionary relief</p>	<p>In July 2007, the West Wiltshire Housing Society (now Selwood Housing) submitted an application to the Council for discretionary relief in respect of national non-domestic rates (NNDR). The Council refused this application, on the grounds that the organisation did not meet its criteria for the award of such relief. The aim of this audit was to review the process that the Council followed in reaching this decision.</p> <p>We reviewed the Council's policy for the granting of discretionary relief of national non-domestic rates and also considered how this policy had been applied in respect of the West Wiltshire Housing Society's application.</p> <p>We concluded that the Council had considered the West Wiltshire Housing Society's application for discretionary relief in a way that was consistent with its internal policies and schemes of delegation.</p>

5. Acceptance and implementation of recommendations

Recommendations raised in 2008/09

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	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	Issues arising referring mainly to matters that have an important effect on 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	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 below, for 2008/09, 100% of our recommendations have been fully accepted by the Council and action has been taken or is underway to implement them.

Recommendations	High	Medium	Low	Total
Made	-	3	8	11
Accepted	-	3	8	11
Not accepted	-	-	-	-

5. Acceptance and implementation of recommendations (continued)

Recommendations raised in 2007/08

As part of our internal audit work, we have reviewed the recommendations that we made in 2007/08 in order to ensure that they have been implemented satisfactorily. We followed up a total of nineteen recommendations accepted for implementation in 07/08, all of which had been implemented in full or in part.

The following table sets out the number of recommendations made in 07/08 and their status as at the time of follow up.

Recommendations	High	Medium	Low	Total
Raised	-	4	15	19
Accepted	-	4	15	19
Implemented in full	-	4	10	14
Implemented in part	-	-	5	5

Where recommendations made in 07/08 have not been implemented in full, we have worked with the Council to understand the reasons for this and to assess the impact of this on the control environment.

We are satisfied that in each of these cases the delay in implementing our recommendations is for genuine operational reasons. We have worked with the Council to identify appropriate courses of action in each case, to ensure that the issues we raised in our original reports are addressed appropriately.

In general, however, the Council has made considerable progress in implementing our recommendations and in enhancing the control environment across its operations.

6. Our compliance with audit and quality standards

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 Director prior to submission to the Audit 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.

7. The audit team

Staffing

We recognise that the Council wishes to see its internal audit service make a positive contribution and, as a consequence, this requires 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 and performance standards are adhered to.



Simon Perks, Manager, oversees the delivery of our services, liaises with members and senior management, coordinates the delivery of our services on a day to day basis, and manages our on site work.

This core team works with a range of audit and advisory staff from our public sector practice. Over the course of 2008/09, Sav and Simon have been ably assisted by Benedict Co, Ben Whibley, Adam Bunting, Rob Chidlow and Alasdair Colston.

Appendix A – Performance against the 2008/09 plan

We set out below details of our progress against the 2008/09 internal audit plan. As can be seen, we have completed our work in respect of all reviews and have agreed our reports with the Council.

#	Assignment	Status
1	Accounts preparation	Complete
2	Cash income	Complete
3	Local housing allowances	Complete
4	Commercial waste collection	Complete
5	The five towns initiative	Complete
6	Income and debtors	Complete
7	Expenditure and creditors	Complete
8	Payroll	Complete
9	Council tax and national non-domestic rates	Complete
10	Housing benefit and council tax benefit	Complete
11	Treasury management	Complete
12	Accounting and budgetary control	Complete
13	National non-domestic rates discretionary relief	Complete