

AGENDA

Meeting: Audit
Place: Council Chamber - Monkton Park Offices, Chippenham
Date: Wednesday 29 June 2011
Time: 10.30 am

Please direct any enquiries on this Agenda to Anna Thurman of Democratic Services, County Hall, Trowbridge, direct line (01225) 718379 or email anna.thurman@wiltshire.gov.uk

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Press enquiries to Communications on direct lines (01225) 713114 / 713115

Membership:

Cllr Richard Britton
Cllr Nigel Carter
Cllr Chris Caswill
Cllr Peter Doyle
Cllr George Jeans
Cllr David Jenkins
Cllr Julian Johnson

Cllr Jacqui Lay
Cllr Alan Macrae
Cllr Helen Osborn
Cllr Sheila Parker (Vice Chairman)
Cllr Bridget Wayman
Cllr Roy While (Chairman)

Non-Voting Members
Cllr John Brady

Cllr Jane Scott OBE

Substitutes
Cllr Ernie Clark
Cllr Peter Colmer
Cllr Michael Cuthbert-Murray
Cllr Rod Eaton
Cllr Mark Griffiths

Cllr Mollie Groom
Cllr Howard Marshall
Cllr Francis Morland
Cllr Jeff Osborn

Part I

Items to be considered while the meeting is open to the public

1. Apologies

2. Chairman's Announcements

To receive announcements from the Audit Committee Chairman

3. Minutes of the Previous Meeting (Pages 1 - 8)

To confirm and sign the minutes of the Audit Committee meeting held on 13 May 2011 (copy attached).

4. Members' Interests

To receive any declarations of personal or prejudicial interests or dispensations granted by the Standards Committee.

5. Public Participation and Committee Members' Questions

The Council welcomes contributions from members of the public.

Statements

If you would like to make a statement at this meeting on any item on this agenda, please register to do so at least 10 minutes prior to the meeting. Up to 3 speakers are permitted to speak for up to 3 minutes each on any agenda item. Please contact the officer named on the front of the agenda for any further clarification.

Questions

To receive any questions from members of the public or members of the Council received in accordance with the constitution. Those wishing to ask questions are required to give notice of any such questions in writing to the officer named on the front of the agenda (acting on behalf of the Director of Resources) no later than 5pm on **22 June 2011**. Please contact the officer named on the front of this agenda for further advice. Questions may be asked without notice if the Chairman decides that the matter is urgent.

Details of any questions received will be circulated to Committee members prior to the meeting and made available at the meeting and on the Council's website.

6. **Interim Audit Report 2010-11** (*Pages 9 - 38*)
To receive the Interim Audit Report from KPMG.
7. **Annual Audit Fee 2011/12** (*Pages 39 - 48*)
To receive the Annual Audit Fee 2011/12 from KPMG.
8. **Internal Audit Report 2010/11** (*Pages 49 - 90*)
To receive, the Internal Audit Report from the Interim Chief Finance Officer, Michael Hudson.
9. **Consultation on the Future of Local Public Audit (DCLG)** (*Pages 91 - 114*)
To receive Wiltshire Councils proposed response to the consultation document issued by the Department for Communities and Local Government (DCLG), entitled Future of Local Public Audit.
10. **Annual Governance Statement 2010-11 Draft** (*Pages 115 - 140*)
To receive the draft Annual Governance Statement, from Ian Gibbons, Monitoring Officer.
11. **Forward Work Programme** (*Pages 141 - 142*)
To note the Forward Work Programme.
12. **Date of next meeting**
To note that, the next regular meeting of the Committee will be held on 28 September 2011, commencing at 2pm in the Council Chamber, Monkton Park Offices, Chippenham.

Part II

Items during whose consideration it is recommended that the public should be excluded because of the likelihood that exempt information would be disclosed

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AUDIT

DRAFT MINUTES OF THE AUDIT MEETING HELD ON 13 MAY 2011 AT COUNCIL CHAMBER - BROWFORT, DEVIZES.

Present:

Cllr Richard Britton, Cllr Nigel Carter, Cllr Chris Caswill, Cllr Peter Doyle, Cllr George Jeans, Cllr David Jenkins, Cllr Julian Johnson, Cllr Alan Macrae, Cllr Helen Osborn, Cllr Sheila Parker (Vice Chairman), Cllr Bridget Wayman and Cllr Roy While (Chairman)

Also Present:

Cllr Fleur de Rhe-Philipe, Cllr Jane Scott OBE

16. **Apologies**

There were none.

17. **Chairman's Announcements**

The Chairman informed the Committee of two points to note;

- There would be a presentation from Gerry Cox, Head of Internal Audit Partnership, South West Audit Partnership (SWAP).
- The Department for Communities and Local Government (DCLG) has issued a consultation document on the Future of Local Public Audit. The document will be circulated out of Committee and members comments will noted.

18. **Minutes of the Previous Meeting**

The minutes were approved subject to;

- Cllr Doyle being listed within apologies
- A minute on Benefits realisation.

Resolved

To approve as a correct record and sign the minutes of the meeting held 23 March 2011.

19. **Members' Interests**

There were none.

20. **Public Participation and Committee Members' Questions**

There was no public participation.

21. **SAP Development PID**

Mark Stone, Interim Programme Director – ICT, IM and The Campus and Operational Delivery Programme updated the Committee on the SAP Project Initiation Document.

He thanked KPMG for their comprehensive SAP Post Implementation Report from November 2010. SAP is now a subset of the ICT project.

Outstanding actions that remain unresolved are detailed within Appendix A included in the agenda at pages 27 – 32. This is aligned to phase one of the Information Services Technology Plan.

Short to mid – term business development requirements were identified in Appendix B included in the agenda at pages 33 – 38. These are aligned to phase 2 of the Information Services Technology Plan.

The Committee acknowledged that this was a useful document and recognised the difficulties of merging 5 Authorities into 1 Unitary Council. It was agreed that this report detailed a way forward, but it was felt that the document did not resemble a plan as there were no start or finish dates and therefore monitoring progress would be difficult.

This point was noted, start dates and risk assessments would be added, in addition the Information Services Technology Plan would be made available to Members via SharePoint.

Concern was raised over the number of outstanding projects and work to be done. In particular the number of workarounds that were in place.

The Interim Project Director explained that the number of projects was not considered to be large in terms of a £1Bn organisation. Workarounds were being systematically removed when issues had been resolved. Issues were

being addressed holistically rather than using a 'sticking plaster' approach, ensuring that the 'end to end' process was right.

Confirmation was requested that all members of staff had been trained in SAP.

In response to this it was confirmed that all members of staff were trained prior to SAP 'going live', however training will be an ongoing, due to staff movement and development.

A number of the Committee raised concern over the bullet points, within the conclusion of the report in particular:

- Business processes are not well aligned with SAP leading to duplication of effort.

Corporate Director, Resources, Dr Carlton Brand, explained that the business of Wiltshire Council is continually changing, and currently is going through major restructuring. Business processes would constantly be reviewed and developed.

Members of the Committee queried the future SAP developments road map (Appendix C) expressing concern that there was no allocated budget for these projects.

The Interim Project Director explained that the future road map for SAP contained 25 projects some of which have been investigated and costed, and that business cases were in development for financial approval. He went on to explain that as a department resources were finite and budgets were managed to deliver the best options. However with more resource the projects could be delivered more quickly.

The Committee acknowledged that as a Council there was a 4 year Business Plan and that the main priority was to deliver the objectives within this plan.

Resolved

To note the report and the work that is taking place.

22. Audit Plan 2011/12

Steve Memmott, Head of Internal Audit presented the Internal Audit Plan 2011-12 and sought the Committees views.

Wiltshire Councils Business Plan recognised the need for cost reductions and for service delivery changes to meet the corporate goals with reduced resources. Specific areas for review within the audit plan include those that are featured within the Business Plan:

- Cost Reduction Areas

- Benefits and Outcomes
- Raising Income

Appendix 1 sets out the detailed audit plan of productive work for 2011-12 included in the agenda at pages 63-68.

The Committee thanked the Head of Internal Audit for the Plan and welcomed a number of the audits specified within the plan.

Members of the Committee asked whether it would be possible to see a longer term plan to fit in with the cycle of the Business Plan. The Head of Internal Audit explained that risk changes continually and the plan addressed those risks and the controls that mitigate them. There has been a dedicated move away from cyclical audit planning.

Another issue where Committee members expressed concern was the area of seeking efficiencies. It was felt that undoubtedly contractors would try and protect themselves and that savings made in one area would manifest themselves elsewhere. The risk of cost efficiencies should be realised. The Corporate Director, Resources, Dr Carlton Brand acknowledged that cost shunting was an issue and we should be mindful of this. The Head of Internal Audit, Steve Memmot, explained that capacity is built into the plan to take on audits when necessary and that audit days stated within the report are provisional.

Committee members asked whether Internal Audit would investigate Section 106 monies. The Head of Internal Audit noted this request. Corporate Director, Resources, emphasised that rumours currently circulating around Section 106 monies were 99% untrue. The new system was in place and currently data was being loaded onto the database. The system would be operational in 4 – 6 weeks. He explained that the database would be searchable by Area Board and by Ward.

The Leader asked why there was an Internal Governance Audit in each department except for the Department of Neighbourhood and Planning. The Head of Internal Audit explained that the Internal Governance Audit had already taken place. He went on to explain that Internal Audit were specifically looking at how each department were rolling out and administering corporate policies in accordance with the Corporate Plan.

The Leader extended her personal thanks and thanks on behalf of the Committee for being the leader of such an excellent department for so long. All members of the Committee agreed.

23. **Forward Work Programme**

Resolved

The Plan was noted.

24. **Date of next meeting**

The next Audit Committee meeting will take place on 29 June 2011, in the Council Chamber, Monkton Park.

25. **Urgent Items**

There were none.

26. **Exclusion of the Press and Public**

Following a lengthy discussion, where the Solicitor to the Council Ian Gibbons explained the rationale behind the recommendation, he reminded the Committee of the fine balancing act between withholding and disclosing information and whether the public interest is outweighed.

Paragraph 2 - Information likely to reveal the identity of an individual. It protects an individual's privacy. It allows use of data about them without revealing publicly who they are.

Paragraph 3 - Information about financial or business affairs. This could be information about individuals, companies or the Authority itself. The exemption is there to help the Authority carry on business relationships effectively. The rule may cover such issues as procurement or tenders.

Paragraph 4 - Information relating to any consultations or negotiations within the Authority. i.e. whenever there are, or plan to be, negotiations or discussions with employers over terms of employment. This exemption allows the Authority to carry on negotiations without their position being prejudiced.

Following a recommendation to accept the resolution it was put to the vote and won. Councillors Caswill, Osborn and Jenkins asked for their votes against to be recorded.

Resolved

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Item Number 12 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraph 2, 3 and 4 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

27. **Future Provision of Internal Audit Services**

Michael Hudson, Interim Chief Financial Officer, explained to the Committee the options available for the delivery of the Council's Internal Audit service and the internal and external drivers that have led to this review.

In summary these options were;

1. Retain in – house and restructure.
2. Enter into a partnership model of delivery with another local authority.
3. Outsource the service to an external private provider.

The Interim Chief Finance Officer went on to explain that against the assessment criteria and weightings the Internal Audit service had been assessed as being a good service. He stated that they were an excellent team.

After consideration of the detailed assessments, Option 2 (SWAP Partnership) was the recommended option.

Members of the Committee welcomed the recommended option noting the potential for economies of scale, further career prospects for staff and the sharing of specialist knowledge and best practice. However some of the Committee urged caution, stressing the need for stability within Internal Audit during this period of significant change that Wiltshire Council was currently experiencing. The team had an excellent working relationship with the areas they were auditing and that a change would be unhelpful at this stage. The Interim Chief Finance Officer reaffirmed the continuity of staff, and the need to invest through opportunities. The team needed to be flexible and have sufficient skills and capacity to ensure it can respond to the changing needs of its client. The Service needed to plan for the continual investment in the staff to ensure the high levels of skills are retained, coupled with the growing focus on joint local authority working, standardisation of processes that is driving the sharing of best practice. SWAP have the specific resource and technological systems.

The Leader re-iterated that the management restructure and the future provision of internal audit were two separate issues.

The Interim Chief Financial Officer explained that should the Committee recommend the proposal to Cabinet a paper would be brought back to this Committee detailing the negotiations that had taken place.

Resolved

- i) **Approve Officers to enter into formal negotiations with the South West Audit Partnership (SWAP) under a section 101 of the Local**

Government Act 1972 as amended by the 2000 Act, agreement, to assess further the feasibility of Wiltshire Council entering into a joint local authority Internal Audit partnership.

- ii) Bring back to Audit Committee any formal proposal to enter a TUPE transfer arising from these negotiations, for consideration.**
- iii) Agree that in case negotiations with SWAP result in this option being withdrawn, in parallel with SWAP negotiations the Section 151 Officer, in consultation with the Cabinet Portfolio Holder for Finance, and the Chairs of Audit Committee and Resources Overview & Scrutiny Commission, should pursue alternative arrangements to ensure the Internal Audit Service has effective leadership following option IA as proposed in this report as set out at paragraph 21.**

(Duration of meeting: 10.30 am - 1.25 pm)

The Officer who has produced these minutes is Anna Thurman, of Democratic Services, direct line (01225) 718379, e-mail anna.thurman@wiltshire.gov.uk

Press enquiries to Communications, direct line (01225) 713114/713115

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Agenda Item 6

WILTSHIRE COUNCIL

AGENDA ITEM NO. 6

AUDIT COMMITTEE

29th June 2011

KPMG 2010/11 Interim Audit Findings

Cabinet Member: John Brady - Finance

Key Decision: No

Executive Summary

The Council's external auditors, KPMG LLP, have undertaken an interim audit of the Council's financial and value for money arrangements in line with their 2010/11 audit plan. This report sets out officers responses to that plan as well as attaching the KPMG findings.

Proposals

Members are asked to note the KPMG interim audit findings and receive regular updates on delivery of the actions to address the issues raised by KPMG throughout 2011/12.

Reason for Proposal

The Audit Committee has oversight of external audit.

Michael Hudson
Chief Finance Officer

AUDIT COMMITTEE

29th June 2011

KPMG 2010/11 Interim Audit Findings

Cabinet Member: John Brady - Finance

Key Decision: No

PURPOSE OF REPORT

1. This report sets informs members of the interim findings of our external auditors, KPMG LLP, from their 2010/11 audit to date.

BACKGROUND

2. KPMG have carried out interim audit testing of our processes and controls to inform their 2010/11 audit opinions in relation to the Council's statement of accounts and value for money conclusions. As part of that audit they have also sought to place reliance on Internal Audit's findings. This report summarises the key issues from that report and officers responses to the issues raised. The detailed KPMG report is appended to this report at Appendix A.
3. The report structure identifies:
 - The headlines / key messages in *Section 2*.
 - The overall control environment for the organisation; production of the financial statements; IT; financial systems and Internal Audit in *Section 3*.
 - The new Value For Money (VFM) approach and initial findings in *Section 4*.
4. Overall KPMG have reported that the control environment is 'effective overall', with the majority of controls over financial systems 'generally sound'. It also notes that KPMG based on their work to date have 'good assurance' on the Council's arrangement to secure VFM.
5. Of the 18 recommendations raised last year by KMPG all 18 have been actioned, and this is recognised in the report.

6. The key issues for the Council to address are:

- Work to date suggests that KPMG will again be unable to rely fully on the Council's IT controls.
- There are some weaknesses in respect of financial reporting, payroll, non-pay expenditure and treasury management. As a result KPMG will need to complete additional substantive work in these areas at year-end.
- Whilst KPMG were able to place full reliance on internal audit's work on the key financial systems, this was not the case for some of internal audit's IT audit work, where they are now performing significant additional testing.

7. Officers have worked with KPMG to draw up an action plan to respond to the issues raised and implement improvements in controls. The action plan is attached at Appendix B, and regular updates on implementation are proposed to be brought to this Committee.

Implications

8. This report informs members of the initial KPMG findings and contains an action plan to address all the issues raised.

Risks assessment

9. KPMG's initial risk assessment assumed that the Council had implemented and taken action to mitigate its risks and control its management information effectively. As can be seen the Authority has a good track record of mitigating this risk as all 18 recommendations raised in 2009/10 have been actioned. If during the course of the remainder of the external audit the control issues raised are not address then there is a risk that the external audit fee will be increased and additional costs incurred. The Chief Finance Officer, Monitoring Officer, Head of Paid Service, Internal Audit and Chief Accountant work with KPMG to mitigate this risk, and will continue to do so.

Equalities and diversity impact of the proposals

10. None have been identified as arising directly from this report.

Financial implications

11. The control issues raised are being actioned and we continue to work with KPMG to review ways to monitor and manage the overall 2010/11 fee within the current budget.

Legal Implications

12. None have been identified as arising directly from this report.

Proposals

13. Members are asked to note the KPMG interim audit findings and receive regular updates on delivery of the actions to address the issues raised by KPMG throughout 2011/12.

Reasons for proposals

14. The Audit Committee has oversight of external audit.

Background Papers and Consultation

KPMG Interim Audit Letter

Contact Name:

Michael Hudson, Chief Finance Officer, ext 713601
Michael.hudson@Wiltshire.gov.uk

Appendices:

Appendix A: KPMG Interim Audit Letter
Appendix B: Action Plan

KPMG Interim Audit Letter



Appendix 2
Follow-up of prior year recommendations

The Council has implemented most of the high priority recommendations in our Interim Audit Report 2009/10.

This appendix summarises the progress made to implement the high priority recommendations identified in our Interim Audit Report 2009/10 and re-iterates any recommendations still outstanding.

Number of high priority recommendations that were:	
Included in original report	18
Implemented in year or superseded	17
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Officer responsible & due date	Status as at June 2011
1	1	<p>Manual raising of Purchase Orders and lack of authorisation Purchase orders are not raised for all spend using the SRM purchasing system. Invoices are being posted to the system manually and some without being appropriately authorised. This leads to the risk that fraudulent invoices could be paid or invoices paid twice in error.</p> <p>Recommendation All expenditure should be entered onto the SRM procurement system. A search for duplicate invoices should also be performed as currently the system only checks SRM invoices against all other SRM invoices. (And likewise for non-SRM invoices.)</p>	<p>Caroline Bee (in liaison with SST)</p> <p>March 2011.</p>	<p>From discussion with John Rogers and Dave Marshall, the SRM system is still only used for about 60% of invoices.</p> <p>Although we have not found any evidence of inappropriate authorisation, we would recommend that the use of the SRM system is maximised due to the controls inherent in the system.</p>

APPENDIX B

Action Plan

KPMG recommendation	Management response	Action	Post responsible for implementation	By When
<p>Recommendation 1:</p> <p>SIMS/GL reconciliation There is a lack of formal evidence of preparation and review of the reconciliation between the Schools' Information Management System (SIMS) and the general ledger. This means that this operates as a process rather than a control.</p> <p>Recommendation As reconciliations are carried out in Microsoft Excel, the Council investigates the feasibility of obtaining a "plug in" feature for Excel which will allow the preparation and senior officer review of reconciliations to be evidenced electronically.</p>	Agreed	The reconciliation process will be reviewed and an appropriate formal authorisation procedure will be introduced.	Chief Accountant	31 December 2011

KPMG recommendation	Management response	Action	Post responsible for implementation	By When
<p>Recommendation 2:</p> <p>Identification and review of open orders There is no formal procedure in place to monitor open orders. Lists of open orders are produced and checked by Finance on an ad hoc basis.</p> <p>Recommendation The process for reviewing and checking the appropriateness of open orders should be formalised. This should be carried out by SST on a regular basis.</p>	Agreed	A review will be carried out and a formalised and regular monitoring process will be introduced.	Chief Accountant	31 March 2012

KPMG recommendation	Management response	Action	Post responsible for implementation	By When
<p>Recommendation 3:</p> <p>Internal audit review of IT controls We were able to place full reliance on the testing of financial controls and noted improvements in terms of the adequacy of sample sizes used by internal audit. This was not the case for the IT work, where we found that:</p> <ul style="list-style-type: none"> 1. internal audit's work did not cover all the areas within our agreed joint working protocol and was not documented sufficiently; 1. the work mainly involved only evaluating whether controls were designed appropriately, rather than also testing whether they were effective in practice; and 1. in some cases, the work completed did not support the conclusions drawn. <p>Recommendation Internal audit work on IT controls should be performed and documented to the same standards as non-IT audit work.</p>	Agreed	<p>Internal Audit is currently going through a period of transition which has had an impact on our ability to fully test all IT control areas.</p> <p>A meeting has been arranged between Internal Audit and KPMG for July 2011 to discuss and agree the joint working protocol from 2011/12, to agree our terms and standards of work, and to ensure closer liaison between Internal Audit and KPMG is achieved.</p>	Principal Auditors	30 July 2011

KPMG recommendation	Management response	Action	Post responsible for implementation	By When
<p>Recommendation 4</p> <p>Follow up of control failures by Internal Audit In a number of cases we found that internal audit had not followed up control failures with additional queries to identify whether there are any compensating arrangements in place, which could then be tested to obtain the assurance necessary. The testing of controls had been performed correctly, but it is also important to respond flexibly if the results are not positive to see if it is possible to achieve the audit objective through an alternative way.</p> <p>Recommendation Where control failures are identified by internal audit, they should consider whether there are compensating arrangements in place that may provide assurance on the control objective being tested.</p>	Agreed	<p>Internal Audit will seek to ensure that in all cases of identified control failures, we fully consider any compensating arrangements which may have been put in place by management, thereby providing assurance.</p> <p>We will seek to ensure that an open dialogue is maintained with clients so that our approach ensures that we identify all relevant controls put in place by management to mitigate risks in the service under audit review.</p>	Principal Auditors	Ongoing and to be reviewed at quarterly updates to the Audit Committee.

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Interim Audit Report 2010/11

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Wiltshire Council

June 2011



The contacts at KPMG in connection with this report are:

Chris Wilson

Partner

KPMG LLP (UK)

Tel: 0118 964 2269

christopher.wilson@kpmg.co.uk

Darren Gilbert

Senior Manager

KPMG LLP (UK)

Tel: 029 2046 8205

darren.gilbert@kpmg.co.uk

Rachael Tonkin

Manager

KPMG LLP (UK)

Tel: 0117 905 4654

rachael.tonkin@kpmg.co.uk

Duncan Laird

Assistant Manager

KPMG LLP (UK)

Tel: 0117 905 4253

duncan.laird@kpmg.co.uk

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■ VFM conclusion	14

Appendices

1. Key issues and recommendations	16
2. Follow-up of prior year recommendations	18

This report is addressed to Wiltshire Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Chris Wilson, the appointed engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

This document summarises the key findings arising from our work to date in relation to both the audit of the Council's 2010/11 financial statements and the 2010/11 VFM conclusion.

Scope of this report

This report summarises the key findings arising from:

- our interim audit work at Wiltshire Council (the Council) in relation to the 2010/11 financial statements; and
- our work to support our 2010/11 value for money (VFM) conclusion up to April 2011.

Financial statements

Our *Financial Statements Audit Plan 2010/11*, presented to you in February 2011, set out the four stages of our financial statements audit process.



During March 2011 we completed our planning and control evaluation work. This covered our:

- review of the Council's general control environment, including the Council's IT systems;
- testing of certain controls over the Council's key financial systems with the help of internal audit;
- assessment of the internal audit function;
- review of the Council's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year; and
- review of the Council's work to restate the 2009/10 financial statements under International Financial Reporting Standards (IFRS).

VFM conclusion

Our *VFM Audit Approach 2010/11* issued in February 2011 described the new VFM audit approach introduced this year by the Audit Commission and highlighted the key changes compared to the previous Use of Resources auditor's scored judgements regime.

We have completed some early work to support our 2010/11 VFM conclusion. This included:

- undertaking a preliminary VFM audit risk assessment; and
- obtaining evidence to address the requirements of specific VFM conclusion criteria.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our interim audit work in relation to the 2010/11 financial statements.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Financial statements	Organisational and IT control environment	<p>Your organisational control environment is effective overall.</p> <p>Our review of your IT control environment is on-going and is due to be completed prior to the start of our final accounts audit. Our work to date suggests that we will again be unable to rely fully on the Council's IT controls. We will liaise closely with Finance over the implications this will have on our audit approach and report the outcome of the IT audit in September.</p>
	Controls over key financial systems	<p>The controls over the majority of the key financial system are generally sound.</p> <p>However, there are some weaknesses in respect of individual controls which means we will need to complete additional substantive work at year-end.</p>
	Review of internal audit	<p>Internal audit generally complies with the <i>Code of Practice for Internal Audit in Local Government</i>.</p> <p>We were able to place full reliance on internal audit's work on the key financial systems. However, this was not the case for internal audit's IT audit work, where we are now performing significant additional testing ourselves.</p>
	Accounts production and specific risk areas	<p>The Council's overall process for the preparation of the financial statements is sound.</p> <p>The Council has implemented all of the recommendations in our <i>ISA 260 Report 2009/10</i> relating to the financial statements.</p> <p>The Council has taken the key risk areas we identified seriously and made good progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.</p>
	IFRS re-statement	<p>The transition to IFRS-based accounts has gone relatively smoothly so far and the Council has partially re-stated its 2009/10 financial statements under IFRS.</p> <p>We have reviewed the re-statement work to date and are content that the key changes have been appropriately identified and addressed. It is important that the remaining re-statement work is completed on a timely basis.</p>
Value for Money	Financial resilience	<p>Our VFM audit risk assessment and work to date has provided good assurance on the Council's arrangements to secure value for money on the use of resources.</p>
	Securing VFM	<p>We still have to complete our programme of audit work to inform our value for money conclusion, to be issued in September alongside our opinion on the Council's accounts.</p>

Your organisational control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

In previous years we used our work on the Use of Resources assessment to inform our findings in these areas. Due to the reduced scope of the VFM assessment we have to complete more specific work to support our financial statements opinion.

We obtain an understanding of the Council’s overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Key findings

We consider that your organisational controls are effective overall, and have not identified any specific areas for further improvement.

Our assessment for ‘information systems relevant to financial reporting’ reflects the issues identified in the following page which summarises our review of your IT control environment.

Aspect	Assessment
Organisational structure	3
Integrity and ethical values	3
Philosophy and operating style	3
Participation of those charged with governance	3
Human resource policies and practices	3
Risk assessment process	3
Information systems relevant to financial reporting	2
Communication	3
Monitoring	3

- Key:
- 1 Significant gaps in the control environment.
 - 2 Minor deficiencies in respect of individual controls.
 - 3 Generally sound control environment.

The review of your IT control environment is on-going and is due to be completed prior to the start of our final accounts audit.

Our work to date suggests that we will again be unable to rely fully on the Council's IT controls.

We will liaise closely with Finance over the implications this will have on our audit approach and report the outcome of the IT audit in September.

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Work completed

The Council relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

In completing this work, we plan to rely partially on internal audit's review of SAP and other IT systems, with this work being complemented by our own wider testing of other aspects of the IT control environment.

As explained later in this report (see 'Review of internal audit' – page 7), we have been unable to rely on internal audit's IT audit work which has caused delays in the completion of our review. This work is therefore still on-going. However, due to the nature of the findings to date we have set out some high level conclusions at this stage.

Key findings

Last year we were unable to rely on your IT control environment because of significant weaknesses identified during our IT audit work. As a result, we had to perform a significant amount of additional substantive testing during our final accounts audit.

The Council has taken steps to address the issues identified last year and many improvements have been noted. However, these improvements have not yet addressed all the underlying issues sufficiently. The timing of the response also meant the improvements were not made until the second half of the financial year 2010/11.

As our audit work has not yet been completed we are not able to provide detailed feedback and recommendations on these issues – we will do this through our *Report to those charged with governance 2010/11* in September. However, our work to date has indicated that we will, at best, be able to place only partial reliance on the Council's IT control environment for our audit.

Aspect	Assessment
Access to systems and data	tbc
System changes and maintenance	tbc
Development of new systems and applications	tbc
Computer operations, incl. processing and backup	tbc
End-user computing	tbc

Key:

- 1 Significant gaps in the control environment.
- 2 Minor deficiencies in respect of individual controls.
- 3 Generally sound control environment.
- tbc Testing to be completed after year-end

It should be noted that the issues identified do not mean there have been fundamental failings in the day to day operation of the Council's IT systems. Rather the weaknesses we have continued to find mean we cannot rely on the operation of certain key controls to gain the assurance we require for our audit.

It is therefore likely that we will again need to alter our audit strategy and undertake significant additional substantive testing during our final accounts audit. This will involve direct extractions being made from underlying data for analysis, outside of placing reliance on key automated controls within SAP.

This will have implications on the overall amount of audit work we need to undertake and, as a result, our audit fee. We have discussed options with Finance staff and will work closely with them to minimise these additional costs. We will discuss and agree any ultimate fee implications with the Chief Financial Officer before updating the Audit Committee.

The controls over the majority of the key financial system are generally sound.

However, there are some weaknesses in respect of financial reporting, payroll, non-pay expenditure and treasury management.

We will need to complete additional substantive work in these areas at year-end.

Work completed

We work with your internal auditors to update our understanding of the Council’s key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthroughs for these systems.

We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a key system will not always be in line with the internal auditors’ opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

The controls over the majority of the key financial systems are generally sound but we noted some weaknesses in respect of individual financial systems.

Where Internal Audit gave moderate assurance for these systems, recommendations have been included in their reports as appropriate and have not been repeated here.

Recommendations for a small number of other issues identified through our audit work are included in Appendix 1.

We have not yet assessed the controls over housing rents and benefits and we are now reviewing internal audit’s work in these areas. For asset management, many of the key controls are operated during the closedown process and our testing will be supplemented by further work during our final accounts visit.

The weaknesses identified mean that we will need to complete some additional substantive work at year-end in some areas.

System	Assessment
Financial reporting	2
Schools expenditure	3
Housing rents income	tbc
Council tax income	3
Business rates income	3
Sundry income	3
Payroll expenditure	2
Non-pay expenditure	2
Benefits expenditure	tbc
Treasury management	2
Asset management	tbc

- Key:
- 1 Significant gaps in the control environment.
 - 2 Minor deficiencies in respect of individual controls.
 - 3 Generally sound control environment.
 - tbc Testing to be completed after year-end

Internal audit generally complies with the *Code of Practice for Internal Audit in Local Government*.

We were able to place full reliance on internal audit's work on the key financial systems. However, this was not the case for internal audit's IT audit work, where we are now performing significant additional testing ourselves.

Work completed

We work with your internal auditors to assess the control framework for key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place full reliance on their work.

Where we intend to rely on internal audit's work in respect of the Council's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

The Code of Practice for Internal Audit in Local Government (the IA Code) defines the way in which the internal audit service should undertake its functions. We assessed internal audit against the eleven standards set out in the IA Code. We reviewed internal audit's work on the key financial systems and IT controls and re-performed a sample of tests completed by them.

Key findings

Based on our assessment, internal audit generally complies with the IA Code. However, there was a marked difference in the quality of the IT audit work we reviewed compared to the non-IT work on financial controls. We were able to place full reliance on the testing of financial controls and noted improvements in terms of the adequacy of sample sizes used by internal audit.

This was not the case for the IT work, where we found that:

- internal audit's work did not cover all the areas within our agreed joint working protocol and was not documented sufficiently;
- the work mainly involved only evaluating whether controls were designed appropriately, rather than also testing whether they were effective in practice; and
- in some cases, the work completed did not support the conclusions drawn.

Aspect	Assessment
Scope of internal audit	3
Independence	3
Ethics for internal auditors	3
Audit Committee	3
Relationships with management, other auditors and other review bodies	3
Staffing, training and development	3
Audit strategy and planning	3
Undertaking audit work – non-IT audit	2
– IT audit	1
Audit strategy and planning	3
Due professional care	3
Reporting	3

Key: 1 Non-compliance with the standard and/or significant deficiencies.
 2 Minor deficiencies.
 3 Full compliance with the standard.

When we identified these issues at the start of our interim audit visit in March, we discussed the findings with internal audit and Finance and initially agreed to defer further work to allow internal audit the opportunity to undertake additional testing in a number of areas.

Key findings (continued)

However, internal audit have been unable to deliver this in the main so we have now agreed that our IT audit specialists will perform the majority of the outstanding audit work. As highlighted above, this work is now underway.

We also identified one specific area for further development by internal audit more generally. In a number of cases we found that internal audit had not followed up control failures with additional queries to identify whether there were any compensating arrangements in place, which could then be tested to obtain the assurance necessary. The testing of controls had been performed correctly, but it is also important to respond flexibly if the results are not positive to see if it is possible to achieve the audit objective through an alternative way. This is something that should be considered in the future.

A recommendation to this effect has been included in Appendix 1.

The Council’s overall process for the preparation of the financial statements is sound.

The Council has implemented all of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements.

Work completed

We issued our Accounts Audit Protocol to Finance in April 2011. This important document sets out our audit timetable and summarises the working papers and other evidence we require the Council to provide to support our audit work.

We continued to meet with Finance staff on a regular basis to support them during the financial year end closedown and accounts preparation.

As part of our interim work we specifically reviewed the Council’s progress in addressing the recommendations in our *ISA 260 Report 2009/10*.

Key findings

The Council has incorporated a number of measures into its closedown plan to further improve the project management of this complex process. This includes developing a new procedure for closedown of schools ledgers and issuing this to all schools.

We consider that the overall process for the preparation of your financial statements is sound.

The Council has implemented all of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements in line with the timescales of the action plan. The table below sets out the Council’s progress against high priority recommendations.

Issue	Progress
<p>The Central Finance department and the department for Children and Education should work closely together to review the procedures for closedown of the schools’ ledgers.</p> <p>These revisions should be clearly communicated to all the schools and appropriate quality control procedures implemented to ensure the bank reconciliations and ledger balances are accurate.</p>	<p>A new procedure for closedown of schools’ ledgers has been developed and issued to all schools to reflect the strict 31 March cut off to be implemented for closedown 2010/11.</p>
<p>The procedures for debt management should be reviewed and implemented so that the bad debt provision is based on clear and approved assumptions.</p>	<p>Debt management procedures have been reviewed and were taken to Cabinet in October 2010.</p>
<p>The Council is proposing undertaking a full revaluation of all fixed assets in 2010/11. This should also incorporate procedures to ensure that assets that may not already be on its Fixed Asset Register are also identified and valued.</p>	<p>The Council has worked with the new valuers to provide information for closedown.</p>

The transition to IFRS-based accounts has gone relatively smoothly so far and the Council has partially re-stated its 2009/10 financial statements under IFRS.

We have reviewed the re-statement work to date and are content that the key changes have been appropriately identified and addressed.

It is important that the remaining re-statement work is completed on a timely basis.

Work completed

From 2010/11 local authorities are required to prepare their financial statements under the International Financial Reporting Standards (IFRS) based *Code of Practice for Local Authority Accounting in the United Kingdom*. This contains a number of significant differences compared to the previous financial reporting regime.

We have reviewed the work the Council has undertaken to re-state its 2009/10 financial statements under IFRS and its preparations for producing 2010/11 balances in its accounts under IFRS.

Key findings

The Council has partially completed the re-statement of its 2009/10 financial statements under IFRS. The restatement of the balance sheet has been completed and IFRS accounting policies have been approved by the Audit Committee.

A full set of re-stated accounts has not yet been produced. This will need to be addressed on a timely basis to avoid impacting on the closedown process for the 2010/11 financial statements.

The Council set up an IFRS Working Group, which met every three months, to oversee the transition to IFRS. The Chief Financial Officer has chaired the group with the Chief Accountant taking lead responsibility for completing the process. The Working Group included representatives from Property and Finance but did not include representatives from other functions such as HR. Internal Audit were not formally part of the Working Group but were invited to meetings.

We did not identify any specific issues with the re-statement work to date and are content that key changes have been appropriately identified and addressed.

Further commentary is included below on the specific risk areas we identified in our *Financial Statements Audit Plan 2010/11* regarding the implementation of IFRS.

The Council has taken the key risk areas we identified seriously and made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Work completed

In our *Financial Statements Audit Plan 2010/11*, presented to you in March, we identified the key risks affecting the Council's 2010/11 financial statements.

Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date there have been no changes to the risks previously communicated to you.

We have been discussing these risks with Finance as part of our regular meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.




Key findings

The Council has taken these issues seriously and made good progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

The table below provides a summary of the work the Council has completed to date to address these risks.

Key audit risk	Issue	Progress
	<p>The transition to IFRS represents the largest change in accounting for a number of years. This will require a lot of planning and resources by the Council to ensure a smooth and successful transition to IFRS.</p>	<p>The transition to IFRS-based accounts has gone relatively smoothly so far and the Council has partially re-stated its 2009/10 financial statements under IFRS. We have reviewed the re-statement work to date and are content that the key changes have been appropriately identified and addressed.</p> <p>Summarised below is the latest position on specific IFRS transition topics.</p>
	<p>There potentially could be an increased number of finance leases as IAS 17 gives a broader definition of finance leases than the previous UK GAAP standard (SSAP 21) resulting in more assets coming on to the balance sheet.</p>	<p>The Council has reviewed all its property leases and has engaged external experts to review its equipment leases. No major changes in classification have been identified.</p> <p>During the final phase we will review all material leases and contracts to determine whether they been correctly treated as an operating lease or finance lease under IAS 17.</p>

Key audit risk	Issue	Progress
	<p>A new liability is to be recognised on the balance sheet when there is a requirement to pay wages and salaries, bonuses and particularly holiday pay.</p>	<p>The Council has calculated holiday pay accruals based on leave details supplied by a sample of staff. However, a number of assumptions have had to be made about staff numbers and pay rates due to information not being available for prior years.</p> <p>During the final process we will audit the balance using the data collated by the Council to ensure it is line with the requirements of the standard.</p>
	<p>Local authorities are to “component account” for any additions or valuations on or after 1 April 2010. This means when an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately.</p>	<p>The Council has engaged external valuers to carry out a revaluation of its assets and to identify which elements should be accounted for as separate components.</p> <p>During the final phase of our audit we will substantively test additions and valuations to ensure that these are correctly accounted for in line with the component requirements of IAS 16.</p>
	<p>UK GAAP emphasises the substance of control whereas IFRS considers the power to control. As a result there may be a different interpretation of those entities that should be consolidated which may require the Council to prepare Group Accounts for the first time.</p>	<p>The Council has carried out a review of organisations that it has significant dealings with and has not identified any entities which should be included in consolidated financial statements.</p> <p>We have reviewed this assessment and are satisfied that this approach is reasonable.</p>

Key audit risk	Issue	Progress
	<p>Local authorities are facing unprecedented pressure on their finances following the recent Government funding settlement.</p> <p>As with other parts of the organisation, the Council's Finance function will be affected by the Council's response to its reduced funding. There is a risk that any reductions in finance staff and increased workload will impact on the operation of financial controls and the accounts closedown process. Similarly, reductions to Internal Audit may impact on the assurance available regarding the control environment.</p>	<p>To date the Council has managed the impact of the current economic climate on the Finance function well. Finance support and leadership continues to be provided on a wide range of projects, initiatives and developments whilst also maintaining a focus on delivering the 'day job'.</p> <p>The Council is currently considering its options for the future structure and delivery of the internal audit function. It will be important to ensure that internal audit can continue to deliver the necessary assurance on financial and other controls during this period of reflection and the transition to any new structure.</p>
	<p>During our 2009/10 audit we identified a number of concerns over the operation of controls on the new SAP system and as a result we performed additional substantive testing for our year-end audit.</p>	<p>The Council has taken steps to address the issues identified last year and many improvements have been noted. However, these improvements have not yet addressed all the underlying issues sufficiently.</p> <p>Our IT audit work is still on-going. As outlined above, our work to date suggests that we will again be unable to rely fully on the Council's IT controls.</p>
	<p>During 2008/09 and 2009/10, audit adjustments were made to the accounts to ensure the correct accounting of the disposal of assets for foundation schools.</p> <p>In addition, we identified a number of control weaknesses surrounding the reconciliations of year end school balances.</p>	<p>The Council is reviewing how the assets of Voluntary Controlled and Voluntary Aided schools should be accounted for under IFRS. The guidance in this area is not clear and we are working with the Council to identify a consistent approach.</p> <p>A new procedure for closedown of school ledgers has been developed and issued to all schools for closedown 2010/11.</p>

We follow a new VFM audit approach this year.

Our VFM conclusion will consider how the Council secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

Our VFM Audit Plan 2010/11 describes in more detail how the new VFM audit approach operates.

Background

For 2010/11, auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Council has proper arrangements in place for:

- securing financial resilience: looking at the Council's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Council is prioritising resources and improving efficiency and productivity.

There are no scored judgements under the new approach and the VFM conclusion is the only output. This remains a 'pass / fail' style assessment.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Council to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit. We then assess if more detailed audit work is required in specific areas. The Audit Commission has developed a range of audit tools and review guides which we can draw upon where relevant.

Overview of the new VFM audit approach

The key elements of the VFM audit approach are summarised below.



Our VFM audit risk assessment and work to date has provided good assurance on the Council's arrangements to secure value for money on the use of resources.

We still have to complete our programme of audit work to inform our value for money conclusion, to be issued in September alongside our opinion on the Council's accounts.

Work completed

We have looked at the Council's financial governance, financial planning and financial control processes, and its arrangements to challenge the achievement of value for money, in order to assess the key risks that would affect the Council.

The Council has worked hard over the last six months to meet the demands of the front loaded public sector cuts, which requires 12% in year savings. Management has had a recruitment freeze for some time and has also completed a staff restructuring programme. Management has also commenced a significant change programme which has the aim of delivering the required savings.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities such the interim financial statements audit work we have carried out, particularly the review of the Council's organisational control environment.


We have identified one key risk and we consider the arrangements put in place by the Council to mitigate the risk.

Key findings

Our work to date has provided good assurance on the Council's VFM arrangements. We have obtained evidence to address most of the VFM criteria, although there remain a few areas where we are still waiting for additional evidence.

There are no specific issues to report at this stage, although our work will continue over the summer.

Below we set out our preliminary findings in respect of specific audit risk areas identified during our work this year. We will report our final conclusions in our *ISA 260 Report 2010/11*.

Key VFM risk	Focus of work	Preliminary assessment
	<p>Like all authorities, the Council is facing unprecedented financial pressures and must take radical steps to ensure it continues to deliver value for money through its services in the face of reduced government funding.</p>	<p>Our work to date has confirmed that the Council has continued to maintain a range of arrangements to review, challenge and improve its current service delivery.</p> <p>Funding cuts as a result of the Comprehensive Spending Review have been front-loaded, so the most significant savings are required in years 1 and 2. This has been recognised by the Council in setting its Financial Plan. Management are taking responsibility for reviewing strategic priorities and the cost-effectiveness of activities.</p> <p>The Council has a large number of projects identified to deliver the required efficiencies and savings. A key challenge for the Council will be monitoring the progress of all the schemes to ensure the required savings are realised.</p> <p>We will complete further work in the summer to consider the approach being followed to deliver efficiency savings in the face of the current financial pressures.</p>

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations

<p>1 <i>Priority one:</i> Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>2 <i>Priority two:</i> Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 <i>Priority three:</i> Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>
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No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	2	<p>SIMS/GL reconciliation</p> <p>There is a lack of formal evidence of preparation and review of the reconciliation between the Schools' Information Management System (SIMS) and the general ledger. This means that this operates as a process rather than a control.</p> <p>Recommendation</p> <p>As reconciliations are carried out in Microsoft Excel, the Council investigates the feasibility of obtaining a "plug in" feature for Excel which will allow the preparation and senior officer review of reconciliations to be evidenced electronically.</p>	<p>Agreed</p> <p>The reconciliation process will be reviewed and an appropriate formal authorisation procedure will be introduced.</p> <p>Responsible officer: Chief Accountant</p> <p>Due date: By 31 December 2011</p>
2	3	<p>Identification and review of open orders</p> <p>There is no formal procedure in place to monitor open orders. Lists of open orders are produced and checked by Finance on an ad hoc basis.</p> <p>Recommendation</p> <p>The process for reviewing and checking the appropriateness of open orders should be formalised. This should be carried out by SST on a regular basis.</p>	<p>Agreed</p> <p>A review will be carried out and a formalised and regular monitoring process will be introduced.</p> <p>Responsible officer: Chief Accountant</p> <p>Due date: By 31 March 2012</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
3	1	<p>Internal audit review of IT controls</p> <p>We were able to place full reliance on the testing of financial controls and noted improvements in terms of the adequacy of sample sizes used by internal audit. This was not the case for the IT work, where we found that:</p> <ul style="list-style-type: none"> ■ internal audit's work did not cover all the areas within our agreed joint working protocol and was not documented sufficiently; ■ the work mainly involved only evaluating whether controls were designed appropriately, rather than also testing whether they were effective in practice; and ■ in some cases, the work completed did not support the conclusions drawn. <p>Recommendation</p> <p>Internal audit work on IT controls should be performed and documented to the same standards as non-IT audit work.</p>	<p>Agreed</p> <p>Internal Audit is currently going through a period of transition which has had an impact on our ability to fully test all IT control areas.</p> <p>A meeting has been arranged between Internal Audit and KPMG for July 2011 to discuss and agree the joint working protocol from 2011/12, to agree our terms and standards of work, and to ensure closer liaison between Internal Audit and KPMG is achieved.</p> <p>Responsible officer: Principal Auditor (IT)</p> <p>Due date: By 30 July 2011</p>
4	2	<p>Follow up of control failures by Internal Audit</p> <p>In a number of cases we found that internal audit had not followed up control failures with additional queries to identify whether there are any compensating arrangements in place, which could then be tested to obtain the assurance necessary. The testing of controls had been performed correctly, but it is also important to respond flexibly if the results are not positive to see if it is possible to achieve the audit objective through an alternative way.</p> <p>Recommendation</p> <p>Where control failures are identified by internal audit, they should consider whether there are compensating arrangements in place that may provide assurance on the control objective being tested.</p>	<p>Agreed</p> <p>Internal Audit will seek to ensure that in all cases of identified control failures, we fully consider any compensating arrangements which may have been put in place by management, thereby providing assurance.</p> <p>We will seek to ensure that an open dialogue is maintained with clients so that our approach ensures that we identify all relevant controls put in place by management to mitigate risks in the service under audit review.</p> <p>Responsible officer: Principal Auditors</p> <p>Due date: Ongoing and to be reviewed at quarterly updates to the Audit Committee.</p>



Appendix 2 Follow-up of prior year recommendations

The Council has implemented all of the high priority recommendations in our *Interim Audit Report 2009/10*.

This appendix summarises the progress made to implement the high priority recommendations identified in our Interim Audit Report 2009/10 and they have all been fully implemented.

Number of high priority recommendations that were:

Included in original report	18
Implemented in year or superseded	18



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WILTSHIRE COUNCIL

AGENDA ITEM NO. 7

AUDIT COMMITTEE

29th June 2011

KPMG External Audit Fee 2011/12

Cabinet Member: John Brady - Finance

Key Decision: No

Executive Summary

The Council's external auditors, KPMG LLP, set an annual fee for the next 12 months in which they will undertake the 2011/12 audit. The fee is set following Audit Commission guidelines and discussions with the Council regarding its risks. This report sets out the proposed fee identified by KPMG. The proposed indicative fee is £370,260, excluding grant audit fees that are proposed at £80,000. That is a 15%, or £65,340 reduction from the 2010/11 audit fees (£435,600).

Proposals

Members are asked to note the KPMG proposed fee and receive regular updates on delivery of the audit against this fee throughout 2011/12.

Reason for Proposal

The Audit Committee has oversight of external audit.

Michael Hudson
Chief Finance Officer

AUDIT COMMITTEE

29th June 2011

KPMG External Audit Fee 2011/12

Cabinet Member: John Brady - Finance

Key Decision: No

PURPOSE OF REPORT

1. This report sets informs members of the proposed indicative external audit fee for 2011/12.

BACKGROUND

2. Each year under the current external audit regime, our external auditors inform us of the proposed fee. The fee is calculated based on Audit Commission guidelines and the external auditors opinion of our residual risks. Attached at Appendix A is our external auditor's proposed fee letter for 2011/12.
3. The letter identifies an indicative fee of £370,260, excluding grant audit fees that are proposed at £80,000. That is a 15%, or £65,340 reduction from the 2010/11 audit fees (£435,600).
4. The Fee letter sets out some of the basis for KPMG's risk assessment, Appendix 1, along with the planned outputs at Appendix 2 to their letter. This is in line with the Audit Plan previously reported to this Committee.

Implications

5. The Council is required to have an external audit appointment and to agree an annual fee with that body. This report informs members of the proposals for 2011/12.

Risks assessment

6. KPMG's initial risk assessment assumes that the Council has implemented and is taking actions to mitigate its risks and control its management information effectively. If during the course of the external audit this is not done then there is a risk that the external audit fee will be increased and additional costs incurred. The Chief Finance Officer, Monitoring Officer, Head of Paid Service, Internal Audit and Chief Accountant work with KPMG to mitigate this risk, and will continue to do so in 2011/12.

Equalities and diversity impact of the proposals

7. None have been identified as arising directly from this report.

Financial implications

8. The proposed fee is in line with the fee level provided for in the budget and as such does not amend the financial plan and it is proposed that the fee be accepted.

Legal Implications

9. None have been identified as arising directly from this report.

Proposals

10. Members are asked to note the KPMG proposed fee and receive regular updates on delivery of the audit against this fee throughout 2011/12.

Reasons for proposals

11. The Audit Committee has oversight of external audit.

Background Papers and Consultation

KPMG LLP fee letter

Contact Name:

Michael Hudson, Chief Finance Officer, ext 713601
Michael.hudson@Wiltshire.gov.uk

Appendices:

Appendix A: KPMG Fee Letter 28th April 2011

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KPMG LLP
Audit
Arlingotn Business Park
Theale
Reading RG7 4SD
United Kingdom

Tel +44 (0) 118 964 2238
Fax +44 (0) 118 964 2222
DX 146800 Theale (2)
christopher.wilson@kpmg.co.uk

Mr A Kerr
Chief Executive
Wiltshire Council
County Hall
Bythesea Road
Trowbridge
Wiltshire BA14 8JN

Our ref 1450/cw/dg

28 April 2011



Dear Andrew

Annual audit fee 2011/12

I am writing to confirm the audit work and fee that we propose for the 2011/12 financial year at Wiltshire Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2011/12.

As we have not yet completed our audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

The proposed indicative fee for the audit for 2011/12 is **£370,260** (plus VAT). This compares with the planned fee of £435,600 for 2010/11, representing a reduction of £65,340 (or 15 per cent).

At this stage I estimate that the fee for the certification of 2011/12 grants and returns will be £80,000. As the amount of work will depend on a number of factors that cannot be predicted with certainty at this early stage, including the number and nature of the schemes which will require certification, I will provide an update to this estimate at a later date. I will write to Michael Hudson separately when I have a better understanding of the likely scale of this work.

The indicative fee is based on a number of assumptions, which I have summarised in Appendix 1 to this letter. The Audit Commission has published its work programme and scales of fees 2011/12 and the scale fee for Wiltshire Council is £392,040. The fee proposed for 2011/12 is six per cent below the scale fee. The 2011/12 scale fee reflects reductions from the new approach to the VFM audit, where the volume of work has reduced compared to the previous use of resources scored judgements regime. Fees have also reduced because some of the additional audit costs associated with the introduction of International Financial Reporting Standards in 2010/11 are not present in 2011/12. Your fee also reflects the reduction in detailed VFM audit project work, given the new audit approach.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2010/11. The fee does not, however, reflect any additional audit work and fee that may be required as a result of the Council's planned replacement of its multiple Council Tax, Business Rates and Housing Benefits systems with a single Council-wide system during 2011/12. We are still considering the audit implications of this system change and discussing the approach being followed with officers. I will therefore discuss and agree separately any additional work and fee that may be required with Michael Hudson, although I anticipate that this would be a one-off factor affecting the only 2011/12.

A separate plan for the audit of the 2011/12 financial statements will be issued later this year. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with Michael Hudson and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

In line with previous years, the 2011/12 audit fee will fund our VFM audit work during 2011, leading up to the VFM audit conclusion which we will issue in September 2011. The VFM audit will be the first under the Audit Commission's new approach and will be structured around two themes:

- Financial resilience (considering financial governance, financial planning and financial controls); and
- Prioritising resources within tighter budgets (considering arrangements for prioritising resources and improving efficiency and effectiveness)

The new audit approach was set out in the VFM audit plan which I presented to the Audit Committee in March 2011.

I expect to issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 2.

The proposed fee excludes any additional work we may agree to undertake at the request of Wiltshire Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

The key members of our audit team for the 2011/12 audit are set out overleaf:

Name	Role	Contact details
Darren Gilbert	Senior Manager	darren.gilbert@kpmg.co.uk 029 2046 8205
Rachael Tonkin	Manager	rachael.tonkin@kpmg.co.uk 0117 905 4654
Duncan Laird	Assistant Manager	duncan.laird@kpmg.co.uk 0117 905 4253

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).

If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website (www.audit-commission.gov.uk) or on request.

Yours sincerely



pp

Chris Wilson
Partner

cc: Michael Hudson (Chief Finance Officer)

Appendix 1 – Audit fee assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2010/11;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2011/12 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Improvements to the above factors may allow reductions to the audit fee in future years. Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be revisited when we issue the financial statements audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by the Audit Commission, KPMG or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.



Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Indicative date
Financial Statements audit plan	January 2012
Interim audit report	June 2012
Report to those charged with governance (ISA260 report)	September 2012
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2012
Opinion on Whole of Government Accounts return	September 2012
Annual audit letter	November 2012
Certification of grant claims and returns summary report	February 2013

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WILTSHIRE COUNCIL

AGENDA ITEM NO. 8

AUDIT COMMITTEE

29th JUNE 2011

INTERNAL AUDIT ANNUAL REPORT 2010/11

Purpose of the Report

1. To present the Internal Audit Annual Report on the outcomes of internal audits carried out in 2010/11 and to give an overall opinion on the control environment of Wiltshire Council.

Background

2. The CIPFA Code of Practice for Internal Audit in Local Government represents mandatory proper practice for the internal audit of public sector bodies. A key requirement of the Code is that Internal Audit prepares an annual report to the Council, presenting a summary of the work undertaken during the year, and to give an opinion on the Council's internal control environment. This opinion provides a source of assurance in support of the Annual Governance Statement.
3. The Audit Committee holds responsibility for receiving the Internal Audit Annual Report on behalf of the Council.

Main Considerations for the Council

4. To note the content of the Internal Audit Annual Report which details the level of assurance given on all finalised internal audits undertaken during 2010/11, and to note the overall opinion of a substantial assurance on the operation of the control framework of the Council. This is an improvement on 2009/10 when the overall opinion was a limited assurance. There are a number of significant issues arising from our work, which should be disclosed in the Annual Governance Statement for 2010-11.

Environmental Impact of the Proposal

5. No environmental impact.

Financial Implications

6. There are no additional costs.

Reasons for the Proposal

7. To present the Internal Audit Annual Report 2010/11 to the Audit Committee, and the overall opinion on the Council's control environment.

Proposal

8. The Audit Committee is asked to note the Internal Audit Annual Report 2010/11, and the overall opinion of a substantial assurance on the adequacy and effectiveness of the Council's control environment. There are a number of significant issues arising from our work, which the Assurance Group should be aware of in considering future governance issues.

Michael Hudson
Interim Chief Finance Officer

Report authors: Estelle Sherry, Denise Drew and Rod Taylor, Principal Auditors

Unpublished documents relied upon in the preparation of this Report:

None

Internal Audit

**Annual Report
2010/11**

June 2011

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INTERNAL AUDIT
ANNUAL REPORT 2010/11

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Introduction

1. Internal Audit provides an independent and objective assurance function to the management of the Council, through the examination and evaluation of the adequacy of internal controls. Each year, Internal Audit is required to provide an opinion on the adequacy of these controls in relation to the Council's overall control environment.
2. This report details the Internal Audit opinion on the Council's control environment and the outcomes of the internal audits carried out in 2010/11. Levels of assurance are given on all finalised internal audits undertaken, as well as on the operation of the Council's overall control framework. This overall assurance also informs and is a key part of the Annual Governance Statement 2010/11 assessed elsewhere on the Committee's agenda.

Internal Audit Opinion

3. The CIPFA Code of Practice requires an opinion on the overall adequacy and effectiveness of the Council's control environment. This is based upon the Internal Audit work carried out in the year. The control environment includes governance, risk management and internal control. Audit work has been carried out on each of these during 2010/11.
4. With the inception of Wiltshire Council in April 2009, Internal Audit has ensured that all its audits undertaken in year are followed up, at an appropriate time, with a review of the level and extent to which management have implemented and achieved the actions proposed in response to the original audit. These follow ups provide additional assurance to the Council that risks identified and reported have been considered and actions put in place to address these risks, by reducing or eliminating the likelihood and impact of these risks.
5. For 2010/11 Internal Audit have concluded that the level of assurance given from the audits completed during the year lead to an overall audit opinion for the year of **substantial assurance** on the adequacy and effective operation of the Council's overall control environment. **This represents an improvement on the previous year**, when the overall audit opinion was a limited assurance; this followed the major structural reorganisation of moving from five councils into one.

Internal Audit Work

6. Throughout the year 2010/11, Internal Audit have completed and reported on a total of 44 planned audits. Each report gave an audit opinion on the control environment for the service or area audited, and the opinions were:
 - Full Assurance - 2 audits
 - Substantial Assurance - 29 audits
 - Limited Assurance - 13 audits
 - No Assurance - 0 audits
7. In addition, 30 follow-up reviews were carried out, which have confirmed that, in the overall majority of cases, management have responded properly and promptly to audit reports, and have taken appropriate action to manage the risks identified by the audits.
8. A summary of all the audits completed during the year, with levels of assurance given and the numbers of medium and high risks reported, is attached as the Appendix A to this report. An explanation of the range of audit opinions and risk ratings is also given in this Appendix.
9. Also attached at Appendix B is a summary of outcomes of those 2010/11 audits completed and finalised since the end of March 2011 and consequently have not previously been reported to the Audit Committee. This provides the Audit Committee with the final progress report for all planned audits completed in 2010/11.
10. In addition, at Appendix C, is a summary of the outcomes of follow-ups completed since Internal Audit last reported to the Audit Committee in March 2011.
11. In all cases action plans have been provided by management to address and manage the risks identified. These plans have been used in the current year, and will be followed up in the 2011/12 audit. This follow up normally occurs within three to six months of the date the final audit report was issued. Follow up work will identify and report on the achievements made by management in addressing the identified risks, and inform on any improvement in the level of assurance from the original audit. The results of follow-up work are reported to the Audit Committee.

12. Where there are risks reported which are above the council's risk appetite (all high and some medium risks), then the relationship between Internal Audit and the risk management process becomes important. As such, all final report executive summaries are provided to departmental risk leads for informing and populating, as appropriate, departmental and corporate risk registers.
13. Whilst Internal Audit has responsibility to report on the results of its assignments and on management's responses to reported risks, ensuring effective implementation of responses to risks is primarily a management function.
14. When draft reports are issued to management, the covering memorandum asks managers to assist Internal Audit through the completion of the risk assessment, proposed management actions, resource implications and target dates within two weeks of receipt of the report. A prompt response will ensure that the final report can be issued thereby ensuring timeliness and relevance. There are concerns that some responses are significantly delayed. The most significant delays arose in respect of the following draft reports:

Audit	Responsible Service Area	Date of Draft Report	Date of Management Response	Time Taken from Draft to Response
Direct Payments & Individual Budgets	Community Services	16.08.10	06.04.11	33 weeks
Risk Management	Resources	26.02.10	04.08.10	22 weeks
Financial Assessments & Benefits Team	Community Services	28.07.10	14.12.10	20 weeks
Vulnerable Adults – IT Controls	Community Services	21.10.10	03.02.11	15 weeks
Purchasing Cards	Resources	10.06.10	02.09.10	12 weeks

15. The causes of these delays have been discussed with the departments; it is hoped these will be avoided by new procedures and guidance being issued at the start of the 2011/12 audit year. Delays in management attending to key risks raised in Internal Audit reports and ensuring the finalisation of the audit process, undermines internal control and continues to expose the council to risk.

Key Risks Arising From Audit Work

16. A total of 48 high risks were reported in 23 of the 44 final Internal Audit reports issued. Levels of overall assurance for service areas with high risks were:
- Substantial – 12
 - Limited – 11
17. The key risks and issues arising from service areas are set out below and have been reported to this Committee throughout the year. In all cases, action plans have been agreed for implementation with the management responsible; we will follow up actions taken during 2011/12.

Purchasing Cards (1 high risk)

The routine management of the cards was found to be uncontrolled providing an environment in which fraud could occur undetected. A significant number of risks were found; the high level risk identified is associated with the credit and individual transaction limits applied to some cards on issue to officers presenting the potential for the Council to suffer financial loss.

Corporate Asset Management (1 high risk)

Historically there have been a number of different lists, databases and asset registers kept by various teams at different locations. During 2009/10, at the date of the audit, land and property information had been verified but work was required to ensure information quality for other asset classes. Without this assurance, the quality of data used by the corporate finance team to populate the SAP Asset Register, and therefore records underlying the annual accounts, is at risk.

Members' Allowances and Expense Claims (1 high risk)

The scheme comprises a range of fixed rate allowances paid in regular instalments but the major variable element is the Travel and Subsistence Allowance. Payments for travel and subsistence are made only in respect of claim forms submitted by councillors for specific activities and expenditure incurred; there is no requirement for receipts. This risks problems with HMRC regarding the validity of VAT reclaims, may result in receipts of inappropriate dates being submitted, prevents full transparency of, and accountability for, costs incurred and fails to provide for adequate authorisation.

CPU – Procurement Policies, Guidance and Training (1 high risk)

Liaison with staff across Council departments found that staff involved in procuring goods and services had an unacceptable level of mis-understanding of the process, that knowledge of financial thresholds was poor, and that there was inadequate compliance in ordering goods and services via the prescribed routes. The risks of such failures are non-compliance with legislation, inaccurate, incomplete and untimely ordering, the bypassing of systems altogether, potential financial loss, adverse supplier reactions and reputational damage.

Remote Offices – Cash & Bank Accounts (3 high risks)

Gaps and inconsistencies were found in the way petty cash and local bank accounts are monitored and controlled, and potential errors and omissions in the central records were identified. There were no consistent procedural requirements in place, so each office had developed its own processes and the quality of these is dependent on the skills and knowledge of the current staff. The three high risks identified are the inadequate security arrangements at remote sites, which do not afford sufficient protection for cash and other valuable items; the absence of regular reconciliations which may allow frauds and error to remain undetected and the pre-signing of cheques that was found at one site.

Land Charges (4 high risks)

The service operates four disparate land charges systems; one at each hub. Bids from suppliers to standardise the system across the county have been received, however, unless full data capture of all paper records is undertaken implementation of the new system will need to be delayed, and the invest to save potential will not be realised. The searches system in the south hub is more complex than the others, and with duplication in the update of manual and computer records plus ongoing unreliability of IT functionality, these have materially affected productivity. This risks legal and reputational damage if searches are not completed within legislative targets. A lean review of the service identified the need to flatten the structure and achieve cost savings. However, this has not yet occurred and the savings are delayed. The coalition government have implemented changes which have directly affected authorities' ability to generate land charges revenue, such as the abolition of personal search fees. Other providers have since reduced their chargeable fees to remain competitive; the council has needed to follow suit. This has resulted in the underachievement of income forecasts

Pewsey Sports Centre (1 high risk)

Consumer Records Bureau (CRB) legislation states that people working in direct contact with children or vulnerable adults should hold enhanced CRB clearance. As the ex-District Council policy was to have only the standard level CRB check staff may be working with only this standard level of CRB check. This not only potentially places users of the Centre at risk, but will result in Wiltshire Council not complying with legislation. Although this audit was specific to Pewsey Sports Centre, management agreed to confirm the status of CRB checks across all leisure services.

CRB Records for Schools and Childrens' Centres (7 high risks)

Although this audit was initially agreed to assess the position in Schools, there are similar arrangements around CRB and safeguarding procedures required in Early Years settings. An audit of Sure Start Children's Centres (2009/10) identified issues around existing CRB processes. It was then agreed to extend the audit to cover Children's Centres. During the audit, differing information was issued by the CRB, the Independent Safeguarding Authority (ISA) and Ofsted; the position and action needed relating to CRB and ISA was constantly changing. Faced with this environment of change and instability, it is difficult for HR to know and implement the latest requirements which is a risk to the authority. Issues were found around evidence that staff, volunteers, parent helpers, visitors and visiting staff are CRB cleared, carrying a risk to the children and a reputational risk to the Council that due diligence has not been applied. The audit also identified a lack of control over access to personnel records and the retention of CRB certificates or copy certificates which is in contravention to the Data Protection Act. Although many principles apply to Schools and Children's Centres alike, communication is not consistent. Children's Centres are often overlooked, for example updates regarding policies and procedures. With no control over the information available to Schools and Children's Centres, there is a risk that important information or requirements may be overlooked.

Financial Assessments & Benefits Team (FAB) (5 high risks)

The FAB Team are a joint partnership between Wiltshire Council and the Government Department for Work and Pensions (DWP). A review of the entire process from referral, through to CareFirst and SAP was undertaken for a number of financial assessments. Financial assessments are only available in hard copy and are not uploaded onto CareFirst. This means that if a financial assessment form is lost or misplaced and information challenged, there would be no written evidence and the assessment may have to be re-done; this impacts on the quality of service. In instances where FAB assessors are diverted from mainstream work to carry out annual re-assessments, there is a risk that financial assessments are delayed and targets may not be met.

Provision of Care Homes & Placements (5 high risks)

Wiltshire Council has a framework agreement with the Orders of St John Trust (OSJ) which covers a 25 year period for the lease of 19 Wiltshire Council care homes and the provision of care services for 20 years. A review of contracts, agreements, variations and letters showed that Council contracting procedures have not always been followed, especially the need to liaise with Legal Services for major contracts. The absence of legal involvement could place the Council in a weak position if challenged. The varying approaches found to contracting with OSJ made it difficult to understand what agreements were in place and exactly what was being purchased. The method used to account for beds and occupancy levels is confusing and not transparent. Evidence suggests the number of beds purchased under the agreement was optimistic; the Department should be reducing the amount of beds purchased to a level which reflects current usage. Visits to 4 care homes identified weaknesses in the administration and control of resident's cash and care records.

Adult Placements – IT Controls (1 high risk)

Confidential client data is held in files and folders to which only the Adult Care Placements team should have access. We identified incorrect and excessive file permissions in this area which could allow unauthorised access to this confidential data.

Other Audit Work 2010-11

18. Internal Audit has undertaken a variety of other work in addition to planned audit assignments. Much of this work has been in response to specific requests from clients to provide advice and assistance in relation to a control, process or system query. Other work has been in relation to suspected frauds reported to the section, as well as in support of the National Fraud Initiative.

Counter Fraud Work

19. Certain audits, such as Officer's Expense Claims, Remote Offices – Cash & Bank Accounts, and Purchasing Cards, were included in the audit programme due to prior findings of fraud risk. Our audits in these areas have resulted in a number of control improvements to reduce the risk of fraud.
20. Notifications received by Internal Audit from the National Anti Fraud Network and other authorities of nationally reported frauds have been disseminated to relevant teams within the Council to ensure appropriate actions can be planned and implemented.

National Fraud Initiative

21. The Audit Commission runs the National Fraud Initiative (NFI) every two years using data from public bodies to identify anomalous matches indicating the possibility of error or fraud. Wiltshire Council undertook its first NFI exercise in 2010. Internal Audit administered the extraction and secure upload of all data as prescribed by the Audit Commission.
22. Teams across the Council received reports during quarter 4 of over 20,000 matches for investigation. To date, only 15% of matches have had investigations completed; four teams have yet to complete any investigations.. Teams should investigate matches, particularly those of high priority, on a timely basis.
23. During 2011/12, Internal Audit will monitor the results of investigations and report any frauds and errors found to the Audit Commission and external audit.
24. A summary of progress to date is as follows:

Report type	No of reports	Total number of matches	Priority matches	Investigations Completed
Creditors	10	12,054	-	690
Housing Benefits	21	4,137	535	37
Transport Passes	2	1,503	1,503	1,503
Blue Badges	3	1,068	871	365
Payroll	9	744	182	-
Pensions	6	601	218	445
Licences	16	280	73	3
Care Homes	2	207	109	-
Housing	4	12	8	-
Parking Permits	2	3	2	-
Totals	75	20,609	3,501	3,043

Investigations

25. We have investigated twelve referrals of suspected fraud or irregularity. Many investigations have resulted in management implementing improvements to controls. One investigation, concerning income theft and false accounting, resulted in the dismissal of an officer and the case being passed to the police.

Financial Management Standard in Schools (FMSiS)

26. Internal Audit completed its assessment of all primary and secondary schools in Wiltshire against the Financial Management Standard in Schools during 2010/11. Only two schools failed to meet the requirements of the standard.
27. In December 2010, the Government announced the immediate cessation of the FMSiS and the planned introduction of a Schools Financial Value Standard (SFVS) in September 2011. The SFVS will be a simpler assessment focussing on effective financial management and achieving value for money.
28. Internal Audit provided a training pack to school administrative officers, containing guidance on audit and financial control, and issued our annual Internal Audit Schools Bulletin to all schools. The Bulletin included information on common issues arising from our FMSiS work, and best practice advice on governance arrangements, financial planning, financial processes and budgetary control.

Internal Audit Performance 2010/11

29. Internal Audit monitors its performance using a number of indicators. These are shown below with comparisons to the previous year. In order to present an overview of Internal Audit's performance for the year, the following tables summarise certain key targets against which we have measured our achievements for 2010-11.

Indicator	Budgeted Days	Actual Days	% Achieved
Audit Time against Audit Plan	2,693	2,595	96%
Planned Audits Completed	2,087	1,898	91%
Planned Schools Audits Completed	229	195	85%

30. Audit resources during the year were reduced from a planned 16.36 FTE to an actual 15.85 FTE. This was due to the secondment of one Principal Auditor during the first quarter of the financial year, coupled with the reduction of two Principal Auditors in the last quarter of the financial year following the management restructuring.

- 31. Actual audit time was also reduced by the need for staff to attend restructuring meetings and to prepare for their new responsibilities. In addition, the proposal to implement a new strategy for the delivery of internal audit services within the council has required significant input from team members. Finally, 15 of the 17 staff within the team moved offices during the year and again productivity was reduced at this time.

- 32. The amount of audit time against the plan however remained high as actual time spent on some audits in year exceeded the budgeted time allocated. Although management of time to budget is a key aim, in some cases, it is important that additional time is allocated beyond that originally set. For example, where the service area under review is a fundamental or core service or system, where there have been significant changes in staffing, systems used or procedures undertaken, where legislative changes or other external influences have impacted on the service, or where the service manager has identified and reported the service as being at high risk of failure in some capacity.

- 33. Examples of audits which were undertaken in year where decisions were made to extend the originally budgeted time include DCS FAB Team and DNP Land Charges.

Appendix A**Explanation of Audit Opinions and Risk Ratings****Audit Opinion**

Full Assurance – There is a sound system of control designed to achieve the service objectives, with key controls being consistently applied.

Substantial Assurance – Whilst there is a basically sound system of control, there are weaknesses which may put some of the service objectives at risk.

Limited Assurance – Weaknesses in the system of control are such as to put service objectives at risk.

No Assurance – Control is generally weak leaving the system open to significant error or abuse.







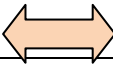
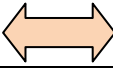
Risk Rating


High Risks – These are significant risks to the effective delivery of the service. Risk management strategies should be put in place to appropriately manage the identified risks within a short timescale. Frequent monitoring of the management of identified risks is essential.

Medium Risks – These are risks which must be managed to ensure the effective delivery of the service. Monitoring of the risk should be regularly undertaken.

Low Risks – These are risks which are not considered significant to the effective delivery of the service, but which should nevertheless be managed and monitored using existing management processes.

Outcomes of Completed Audits 2010/11

Audited Activity	Audit Opinion 2010/11	Audit Opinion 2009/10 (where applicable)	Change in assurance 2009/10 to 2010/11	Risks Identified
<u>RESOURCES</u>				
Cash, Investments and Borrowing	Full Assurance	Substantial Assurance		No High or medium Risks
Financial Reporting	Substantial Assurance	Limited Assurance		2 Medium Risks
Council Tax	Substantial Assurance	Limited Assurance		3 Medium Risks
National Non Domestic Rates	Substantial Assurance	Limited Assurance		5 Medium Risks
Housing and Council Tax Benefits	Substantial Assurance	Limited Assurance		3 Medium Risks
Risk Management	Substantial Assurance	N/A	-	3 Medium Risks
Accounts Payable	Substantial Assurance	Limited Assurance		5 Medium Risks
Officers' Expense Claims	Substantial Assurance	N/A	-	6 Medium Risks
Payroll	Substantial Assurance	Substantial Assurance		1 Medium Risk
Core IT Control Environment	Substantial Assurance	N/A	-	6 Medium Risks
SAP IT Controls (Financial Systems)	Substantial Assurance	N/A	-	2 Medium Risks
Purchasing Cards	Limited Assurance	N/A	-	1 High Risk 11 Medium Risks
Corporate Assets Management	Limited Assurance	N/A	-	1 High Risk 3 Medium Risks
Accounts Receivable	Limited Assurance	Limited Assurance		4 Medium Risks
Members' Allowances and Expense Claims	Limited Assurance	N/A	-	1 High Risk 2 Medium Risks
CPU – Procurement Policies, Guidance & Training	Limited Assurance	N/A	-	1 High Risk 5 Medium Risks
Remote Offices – Cash & Bank Accounts	Limited Assurance	N/A	-	3 High Risks 3 Medium Risks

Audited Activity	Audit Opinion	Audit Opinion 2009/10 (where applicable)	Change in assurance 2009/10 to 2010/11	Risks Identified
NEIGHBOURHOOD AND PLANNING				
Footways and Pavements	Full Assurance	N/A	-	No High or medium Risks
DNP – Internal Governance	Substantial Assurance	N/A	-	2 Medium Risks
Service Charges on Council Properties	Substantial Assurance	N/A	-	4 Medium Risks
Gas Servicing	Substantial Assurance	N/A	-	3 Medium Risks
Waiting List Management	Substantial Assurance	N/A	-	3 Medium Risks
Housing Rents	Substantial Assurance	Limited Assurance		1 High Risk 1 Medium Risk
Bridge Management	Substantial Assurance	N/A	-	1 High Risk 3 Medium Risks
Provision of Highway Services	Substantial Assurance	N/A	-	1 High Risks 5 Medium Risks
Passenger Transport Procurement	Substantial Assurance	N/A	-	1 High Risk 3 Medium Risks
Five Rivers Leisure Centre	Substantial Assurance	N/A	-	1 High Risk 4 Medium Risks
Housing Rents IT Controls	Substantial Assurance	N/A	-	6 Medium Risks
Land Charges	Limited Assurance	N/A	-	4 High Risks 7 Medium Risks
Pewsey Sports Centre	Limited Assurance	N/A	-	1 High Risk 4 Medium Risks
Depots, Stores and Workshops	Limited Assurance	N/A	-	2 Medium Risks

Audited Activity	Audit Opinion	Audit Opinion 2009/10 (where applicable)	Change in assurance 2009/10 to 2010/11	Risks Identified
CHILDREN AND EDUCATION				
DCE Procurement	Substantial Assurance	N/A	-	5 Medium Risks
DCE Capital Projects	Substantial Assurance	N/A	-	3 High Risks 2 Medium Risks
Youth Development – IT Controls	Substantial Assurance	N/A	-	1 High Risk 4 Medium Risks
CRB Records for Schools and Childrens' Centres	Limited Assurance	N/A	-	7 High Risks 3 Medium Risks
COMMUNITY SERVICES				
Direct Payments & Individual Budgets	Substantial Assurance	N/A	-	2 High Risks 6 Medium Risks
Direct Payments – IT Controls	Substantial Assurance	N/A	-	3 Medium Risks
Vulnerable Adults – IT Controls	Substantial Assurance	N/A	-	2 High Risks 3 Medium Risks
Community Equipment	Substantial Assurance	N/A	-	1 High Risk 4 Medium Risks
DCS Internal Governance	Substantial Assurance	N/A	-	3 Medium Risks
DCS Procurement	Substantial Assurance	N/A	-	2 Medium Risks
Financial Assessments & Benefits Team (FAB)	Limited Assurance	N/A	-	5 High Risks 9 Medium Risks
Provision of Care Homes & Placements	Limited Assurance	N/A	-	5 High Risks 7 Medium Risks
Adult Placements – IT Controls	Limited Assurance	N/A	-	1 High Risk 3 Medium Risks

Appendix B

Key Risks arising from Audits Completed since March 2011

Audited Activity	Audit Objectives	Audit Opinion	<u>Medium</u> Risks and Main Issues	Management Actions Proposed
Housing and Council Tax Benefits	<ul style="list-style-type: none"> • The operational and performance management of the Housing and Council Tax Benefits function is adequate and effective. • All applications are promptly and properly processed. • Adequate verification of information ensures that all benefits are correctly calculated and properly due. • Payments reconcile between Application systems, Civica and SAP. • Controls exist to administer, monitor and recover overpayments promptly. • Adequate arrangements exist to detect frauds and other irregularities. • The project to procure, install, test and operate a single application system across the county is underway and on target for completion according to plan by October 2011, and project risks are being adequately identified and managed. 	Substantial 3 Medium Risks	<ul style="list-style-type: none"> • Failure to undertake a prompt and effective end to end application, SAP and bank reconciliation of all benefit payments risks undetected overpayment error bringing into question the integrity of information held on the ledger and its feeder systems. • Inconsistency in the application of overpayment recovery procedures risks inefficient and ineffective recovery resulting in unrecovered debts. • Failure to update the project risk register by nominating action owners, identifying contingency plans and reporting them to the Project Board, risks having inadequate plans in place to deal with significant risks to project success. 	<p>Since the audit some progress has been made on this. The Head of Revenues and Benefits will continue to work with the Chief Accountant to develop a prompt and effective process for end to end reconciliation.</p> <p>Since the audit an operational manager has been given specific responsibility for overseeing, monitoring and managing the application of overpayments and their recovery across all service hubs. Also see audit commission recommendations action plan R4.</p> <p>The Head of Revenues and Benefits will work with the project manager to update risk register to include:</p> <ul style="list-style-type: none"> • risk owners • contingency plans <p>And reporting above back to project board.</p>

Audited Activity	Audit Objectives	Audit Opinion	<u>High</u> and <u>Medium</u> Risks and Main Issues	Management Actions Proposed
Housing Rents	<ul style="list-style-type: none"> • All properties are identified and accurately recorded in the rent accounting system. • The gross rent and other charges have been correctly calculated in respect of each dwelling and correctly recorded in the tenants rent accounts. • All rent collections are correctly and promptly credited to the tenants' rent accounts. • All tenancy changes are correctly approved and recorded. • Rent and service charges are correctly identified with the HRA and general fund and are subject to reconciliation between Simdell and SAP. • Effective procedures are in place to pursue and recover current and former tenant arrears including arrangements with legal services. 	Substantial 1 High Risk 1 Medium Risk	<u>High</u> <ul style="list-style-type: none"> • Failure to conduct effective verification checks on standing data changes to rent liabilities prior to actual adjustment and implementation risks: <ol style="list-style-type: none"> 1. Errors not being detected; 2. Financial loss; and 3. Reputational damage. <u>Medium</u> <ul style="list-style-type: none"> • Failure to pursue current tenant arrears in line with council policy, and on a timely basis, risks tenants' inability to repay debts, unrecoverable arrears and financial loss to the council. 	<p>The Head of Housing Management will liaise with the Chief Accountant to ensure that a verification of any rent or service charge is undertaken.</p> <p>A review of resources and training available to housing officers will be undertaken to ensure that rent arrears are dealt with promptly and in line with policy.</p>

Audited Activity	Audit Objectives	Audit Opinion	<u>High Risk</u> and Main Issues	Management Actions Proposed
<p>Community Equipment</p>	<ul style="list-style-type: none"> • The contract in place with Medequip is effectively managed and providing value for money. • There is a review process in place to ensure that payments to the contractor are correct. • Equipment is awarded only after the criteria for eligibility is met. • The process of procuring equipment via the Medequip computer system contains sufficient controls to stop goods being ordered inappropriately or by unauthorised people. 	<p>Substantial Assurance</p> <p>1 High Risk 4 Medium Risks</p>	<ul style="list-style-type: none"> • Each user is required to have a password to use the Medequip online system although the system does not require passwords to be changed once they have been set up. There is a risk that PINS and passwords could become known to other individuals and used to procure or authorise inappropriate purchases. Without proper password controls, the security of the system is compromised. 	<ul style="list-style-type: none"> • Action to be taken to instruct all prescribers to change their password every 28 days in line with Wiltshire's ICT Information Guide – Information Security • A permanent note to be added to monitoring minutes to remind staff that on no account should they share their PIN details with another prescriber.

Audited Activity	Audit Objectives	Audit Opinion	<u>Medium</u> Risks and Main Issues	Management Actions Proposed
<p>DCS Departmental Governance</p>	<ul style="list-style-type: none"> The arrangements for ensuring that departmental objectives are aligned to corporate goals and priorities. The linking of the departmental risk register to the department's objectives, and the arrangements for monitoring and updating the register, also covering the strategic planning risk assessment process. The management information systems and performance indicators used, and how are these linked to objectives and are being monitored. The arrangements for ensuring that corporate policies and procedures are clearly communicated and embedded throughout the department, and are then complied with in practice. The significant partnerships which the department has in place, and the governance arrangements used to monitor and confirm achievement of objectives. 	<p>Substantial Assurance</p> <p>3 Medium Risks</p>	<ul style="list-style-type: none"> Service priorities and targets do not fit available resources or align with departmental and corporate priorities. The Department cannot always illustrate that it is doing the right things well. Partners' risk protocols are not in line with the Council's. 	<ul style="list-style-type: none"> The 11/12 department plans are driven from the Councils Business and Finance plans. The departmental plan is monitored for progress against key milestones at the Departmental Leadership Team (DLT) Meeting, held usually twice a month. The financial plan is also monitored by DLT against proposed procurement, review and efficiency savings to ensure benefits are realised. The monitoring of the departmental plans, finance and performance position by DLT on a regular basis allows the senior management team to see how the department is making progress against key objectives and financial benefits identified in the departmental, Council business and financial plans. All branches of the department are actively managing their risks. This means that they will have identified and considered risks that could impact from our partner organisations. We cannot control how our partners manage their risks but by identifying how their management and actions on risk may impact on us, we have significant governance in place.

Audited Activity	Audit Objectives	Audit Opinion	<u>Medium Risks and Main Issues</u>	Management Actions Proposed
DCS Procurement	<ul style="list-style-type: none"> • Review the policy and strategy for procurement in DCS. • Assess the effectiveness of contract management and performance measurement. • Assess the effectiveness of partnership & collaboration. • Review supplier and contract monitoring processes. 	<p>Substantial Assurance</p> <p>2 Medium Risks</p>	<ul style="list-style-type: none"> • There is a risk that for contracts which are not identified as high value, supplier performance may not be adequately monitored, managed and service standards maintained whilst savings are being implemented. • Risk Registers may need to be further developed for the DCS contracts which are not included with those being targeted for regular review. 	<ul style="list-style-type: none"> • To establish a risk-based approach to medium/ low value contracts to identify any specific performance issues and cost opportunities • The DCS Procurement Plan will be amended to reflect risk consideration at a strategic level to determine where the corporate risk policy is applied. Discussion will be pursued with the Corporate Procurement Unit to explore the potential of amending the Contracts Register to include/ reflect 'risk'.

Audited Activity	Audit Objectives	Audit Opinion	<u>High Risk</u> and Main Issues	Management Actions Proposed
Bridge Management	<ul style="list-style-type: none"> • An ongoing programme of inspection and maintenance is in place. • The Council's contractor Mouchel is effectively managed by the Bridge Management Team. • Ancient and listed bridges are repaired in accordance with the appropriate legislation and with the relevant consent obtained. • Payments to contractor are reviewed and monitored. 	Substantial Assurance 1 High Risk 3 Medium Risks	<ul style="list-style-type: none"> • There are approximately 112 bridges that used to be inspected by the District Councils including 12 bridges on the Chippenham to Calne cycleway. Responsibility for the maintenance and related paperwork of these bridges has not been formally taken on by the Bridge Team and inspections have not yet been fully incorporated into the inspection regime. If an incident were to occur then the Council could be accused of failing to provide an effective inspection regime, resulting in a claim being made and damage to the Council's reputation. 	<ul style="list-style-type: none"> • Include assessments of ex-District Council bridges in highways bridge assessment programme.
Provision of Highway Services	<ul style="list-style-type: none"> • The Contractor (Ringway Infrastructure Services Ltd) is complying with the contractual particulars and is operating in line with Wiltshire Council procedures • Works are undertaken according to the schedule of repairs • A system of checking and review is in place and evidenced • Spending is made according to the principles of best value and is reported in line with timescales set out in the Contract 	Substantial Assurance 1 High Risk 5 Medium Risks	<ul style="list-style-type: none"> • The contractor does not provide reports on efficiency savings. As the savings are not reported, the Council has no assurance that it has received the full benefit of any efficiencies, this is a direct contradiction to the quality of performance clause of the contract. 	<ul style="list-style-type: none"> • Current renegotiation of contract rates and efficiencies identified through the Innovation Forum as part of the Council's 12% cost savings for 2011/12 will put the identification of efficiency savings on a more formal arrangement.

Audited Activity	Audit Objectives	Audit Opinion	<u>High Risk and Main Issues</u>	Management Actions Proposed
<p>Passenger Transport Procurement</p>	<ul style="list-style-type: none"> • Review the policy and strategy for procurement in DNP Passenger Transport. • Assess the effectiveness of contract management and performance measurement. • Review supplier and contract monitoring processes. 	<p>Substantial Assurance</p> <p>1 High Risk 3 Medium Risks</p>	<ul style="list-style-type: none"> • There is a risk that the scope for further passenger transport procurement savings may be limited by cost pressures being experienced by suppliers. Fuel price rises are impacting on all suppliers, as well as the change in the formula used by government to reimburse suppliers for Bus Subsidy Operators Grant (BSOG). 	<ul style="list-style-type: none"> • The PTU will be monitoring the situation with regard to the price of fuel and take the necessary action. Through supplier dialogue the PTU can gauge the sense of feeling on this issue and the tipping point is usually when suppliers terminate contracts due to them not being financially viable. The Council currently pays an annual inflation increase on some of its contracts, which as part of the calculation considers the price of fuel over the previous year. This year there will need to be careful consideration when setting the budget for 2012/13, as the inflation figure will be high.

Audited Activity	Audit Objectives	Audit Opinion	<u>High Risk</u> and Main Issues	Management Actions Proposed
<p>Five Rivers Leisure Centre</p>	<ul style="list-style-type: none"> • Effective management arrangements are in place and service costs, including budgeting and budgetary control are monitored. • Financial controls and processes, such as those for income and expenditure are operating effectively. • Systems and procedures are in place for non-financial risk areas such as health and safety and leisure centre checks. • Management actions proposed in the previous audit have been implemented where applicable. 	<p>Substantial Assurance</p> <p>1 High Risk 4 Medium Risks</p>	<ul style="list-style-type: none"> • There is currently no evidence, held on site or within Human Resources to confirm whether any of the staff at Five Rivers Leisure Centre have been CRB checked. This is in breach of the CRB legislation and could put the public using the centre at risk. 	<ul style="list-style-type: none"> • Risk Assessments for each job role in Leisure Centres were completed November 2010 and passed to HR for direction regarding who should and who should have a CRB. Once confirmation is established the Centres will initiate a process of getting the required staff CRB cleared. All staff involved in Ofsted registered activities should have disclosure numbers and dates available on site.

Audited Activity	Audit Objectives	Audit Opinion	<u>High Risk</u> and Main Issues	Management Actions Proposed
<p>Core IT Control Environment</p>	<ul style="list-style-type: none"> • To ensure the integrity of applications and data, by restricting physical and logical access to systems • To ensure the availability of systems and data, by operating sound 'housekeeping' infrastructure operations. 	<p>Substantial Assurance</p> <p>6 Medium Risks</p>	<ul style="list-style-type: none"> • High levels of administrator-equivalent accounts increase the risk of significant unauthorised and damaging changes being made. Lack of clarity and control over the privileged groups and their members seriously hampers the sound management of the network • Users with the setting of no password set or NULL passwords could logon without a password. If no password is set, unauthorised users (attackers) could use these accounts without having to obtain a corresponding password. 	<ul style="list-style-type: none"> • We are writing an Elevated Rights Policy, which will outline in detail the specific responsibilities of all users who have higher-level permissions to systems (for example, administrator accounts), and will cover the procedure that must be followed to enable such accounts to be created. • As part of the Assurance Check noted above, we will review all accounts with no or a NULL password.

Audited Activity	Audit Objectives	Audit Opinion	<u>Medium</u> Risks and Main Issues	Management Actions Proposed
<p>Core IT Control Environment (cont)</p>			<ul style="list-style-type: none"> • Since the purpose of most of the Active Directory groups is not clear, it is also not clear what permissions and access levels have been granted to the members of these groups. This gives rise to the risk that significant numbers of users may have excessive permissions (ie inappropriate access to files). • Without detailed procedures covering backups we have found that staff and support suppliers are unaware of who should be covering which areas of responsibility. This is an ongoing risk until it is addressed. • Without a means of identifying all backup failures individually per system rather than per server, there is a risk that back up failures will not be identified leading to possible loss of data • Failure to test the Disaster Recovery plan could result in the plan not being implemented as anticipated, causing problems which could potentially increase the recovery time 	<ul style="list-style-type: none"> • Where there is no ongoing need for the account, it will be removed entirely as part of the AD project. Where the account needs to continue, a password fitting our current CoCo-compliant password policy will be added. We have a High priority project on the ICT / IM Programme to address resilience issues within our Active Directory. As part of this project we will address issues concerning the clarity of permissions structure within AD. • We will initiate a review and update of the backup plan, ensuring in particular that there is a robust back-up procedure for Unix-based servers such as Simdell and Academy. • As above • Following completion of the ICT in-source and population of the new structure, we will undertake appropriate testing of the plan.

Audited Activity	Audit Objectives	Audit Opinion	<u>Medium</u> Risks and Main Issues	Management Actions Proposed
<p>SAP IT Controls (Financial Systems)</p>	<ul style="list-style-type: none"> • To ensure the integrity of applications and data, by restricting physical and logical access to systems. ▪ To ensure the continued integrity and availability of systems where changes occur, by operating a sound change management procedure ▪ To ensure the availability of systems and data, by operating sound 'housekeeping' infrastructure operations. 	<p>Substantial Assurance</p> <p>2 Medium Risks</p>	<ul style="list-style-type: none"> • If there are users logging on after they are meant to have left the organisation then there is a risk of unauthorised access • Without a specific procedure relating to the review of users, roles and authorisations, there is a risk that inappropriate access may be granted to users or not removed from users whose jobs no longer require such access or who have left the organisation. 	<ul style="list-style-type: none"> • There is an HR process that identifies staff who are leaving the Council and notifies the SAP support team. The SAP support team carries out regular checks against leaver lists to ensure user accounts are disabled for leavers. Further checks first disable, then delete dormant user accounts. These checks will continue, but it relies on adherence to the HR leaver process by managers to ensure the SAP Support Team receives accurate data. • A procedure is under development, based on the experience gained from carrying out periodic user compliance checks in close liaison with the functional process owners.

Audited Activity	Audit Objectives	Audit Opinion	<u>Medium</u> Risks and Main Issues	Management Actions Proposed
<p>Housing Rents IT Controls</p>	<ul style="list-style-type: none"> ▪ To ensure the integrity of applications and data, by restricting physical and logical access to systems. ▪ To ensure the continued integrity and availability of systems where changes occur, by operating a sound change management procedure. ▪ To ensure the availability of systems and data, by operating sound 'housekeeping' infrastructure operations. 	<p>Substantial Assurance</p> <p>6 Medium Risks</p>	<ul style="list-style-type: none"> • Without documented Simdell specific procedures for managing administrator accounts, users, groups and associated permissions, there is a risk that tasks may not be completed appropriately, access levels may not be suitably set and no one but the system administrator would know how tasks are done. In the case of Simdell, this risk is magnified, since there is only one system administrator. • Without a documented Simdell specific password policy, which is cohesive with the corporate password policy, there is a risk that corporate password security is not being adhered to, thereby weakening protective controls. • Without a Simdell specific policy for user/group permissions reviews there is a risk that user and permissions reviews will not take place. If such reviews do not take place then there is a further risk that users who are no longer working either with the department or the organisation will not have their access removed after they leave. Alternatively, there is no check that access provided to users is appropriate. 	<ul style="list-style-type: none"> • System Administrator to write up procedures for Housing managers to ratify (in progress). • As above. • System Administrator to do quarterly review. A list will be produced of current users and Housing Managers will verify that the roles are correct.

Audited Activity	Audit Objectives	Audit Opinion	<u>Medium</u> Risks and Main Issues	Management Actions Proposed
<p>Housing Rents IT Controls</p> <p>(cont)</p>			<ul style="list-style-type: none"> • Without a security policy which covers accounts with high privileges (e.g. super user accounts) there is a risk that users will not be aware of how such accounts should be authorised, used, set up or of the controls which should be in place for them. • Not having a documented procedure for managing and controlling Simdell super user accounts means there is a risk that managers are unable to know how super user accounts are managed and whether or not they are appropriately controlled. However, there was no evidence that these accounts were inappropriately managed or controlled. • Failure to have a Simdell specific procedure in place relating to logical access controls means there is a risk that the procedures used are not known by anyone other than the system administrator, which could lead to business continuity issues. If procedures are not documented they are not able to be checked by a manager, which means they are at risk of not being compliant either to corporate policies or industry best practice. 	<ul style="list-style-type: none"> • Super user access can only be changed under the ROOT user. This is controlled by Wilts ICT security (they have the passwords) • As above. • A guide to the System Administrator's role in relation to council IT policy & audit requirements has been written and verified by internal audit

Audited Activity	Audit Objectives	Audit Opinion	<u>Medium</u> Risk and Main Issues	Management Actions Proposed
<p>Payroll</p>	<ul style="list-style-type: none"> ▪ There are clearly documented Financial Regulations, Policies and Procedures for the operation of the SAP Payroll System. ▪ Appropriate and secure controls are exercised over the creation and amendment of standing data (to include starters, leavers, in-service amendments, rates of tax, NI and employer/employee pension contributions). ▪ There are appropriate segregations of duties in the operation of the system. ▪ Exception reporting is used to monitor the operation of the Payroll system. ▪ There are regular reconciliations between the General Ledger and the Payroll system. ▪ Pay-overs of tax, NI, pension contributions and other deductions (e.g. Court Orders) are accurate and timely. 	<p>Substantial Assurance</p> <p>1 Medium Risk</p>	<ul style="list-style-type: none"> • Overtime or additional hours claims may be paid without the authorisation of the budget holder. 	<ul style="list-style-type: none"> • Process review to ensure budget holder authorises as well as line manager if appropriate.

Audited Activity	Audit Objectives	Audit Opinion	<u>Medium</u> Risks and Main Issues	Management Actions Proposed
Accounts Payable	<ul style="list-style-type: none"> ▪ There are documented policies and procedures for the operation of the Accounts Payable system. ▪ Control is exercised over the creation and management of supplier records. ▪ Control is exercised over the receipt of goods and the payment of invoices within appropriate timescales. ▪ There are controls over the printing of cheques and the creation of BACS payment files. 	<p>Substantial Assurance</p> <p>5 Medium Risks</p>	<ul style="list-style-type: none"> • Segregation of duties is inadequate. • Invoices may be paid without the approval of an authorised signatory and the high value signing limit given to some staff may lead to inappropriate or excessive expenditure. • Non standard Purchase Order Forms generated outside the SAP SRM system may be used. 	<ul style="list-style-type: none"> • User roles will be checked against the individual's role within the team. • Signatures are checked at the point of entry. Limits have been requested by Departments and authorised by their Heads of Finance but some need to be reviewed. • Procurement will be notified of such instances.
Accounts Receivable	<ul style="list-style-type: none"> ▪ Income / sundry debtors are periodically reconciled to the general ledger. ▪ The debtors system is periodically reconciled to the cash receipting system. ▪ Sundry debtors arrears reports are regularly and independently reviewed to ensure that action is taken in accordance with prescribed procedures. ▪ Key accounts receivable processes operate as documented (walkthrough test). 	<p>Limited Assurance</p> <p>4 Medium Risks</p>	<ul style="list-style-type: none"> • There are risks connected with the timeliness of follow-up, collection and the write-off of overdue debts, including a risk that a reduction in staff resources will impact on the ability to collect the outstanding debts. 	<ul style="list-style-type: none"> • The AR team will follow agreed processes to ensure all debt followed up on a timely basis. Temporary resources will be retained to deal with the backlog. A review of income management will include write-off procedures.

Audited Activity	Audit Objectives	Audit Opinion	<u>Medium</u> Risk and Main Issues	Management Actions Proposed
Financial Reporting	<ul style="list-style-type: none"> ▪ Review of revenue income and expenditure against budget is periodically undertaken by management. ▪ Suspense and holding accounts are periodically cleared, with evidenced management review. ▪ Journals are subject to periodic independent review, including review of exception reports. 	<p>Substantial Assurance</p> <p>2 Medium Risks</p>	<ul style="list-style-type: none"> • In revenue budget monitoring the workaround solutions that have developed for operational reasons are time consuming which imposes restrictions on service accountants in adding value to the process. • Departments have developed different and inconsistent practices for revenue budget monitoring with varying degrees of evidenced management review. 	<ul style="list-style-type: none"> • A review of the budget monitoring process will take place following the financial services restructure. This will aim to make the process more consistent and efficient. • As above

Appendix C

Management Actions in Response to Audits as reported in Follow Ups since March 2011

Audited Activity	Audit Opinion	<u>Medium</u> Risks and Main Issues	Management Actions Proposed	Follow Up Audit Review: Management Actions Taken / Completed
Department of Neighbourhood & Planning – Internal Governance	Substantial 2 Medium Risks (No High Risks)	<ul style="list-style-type: none"> • Overreliance on Wire communications to promulgate policy and procedural changes, and the consequent lack of acknowledgement risks poor compliance and potential for operational failure. • Failure to facilitate feedback to electronic communications to staff risks a lack of assurance that important messages have been received and acted upon. 	<ul style="list-style-type: none"> • Corporate Director will raise at Corporate Leadership Team, and with Director of Communications • Corporate Director will raise at Corporate Leadership Team, and with Director of Communications 	<p>Each communication is being targeted according to communication need/impact required, and team SMTs (senior management team meetings) are increasingly being used as the route of communication to teams on specific issues.</p> <p>As above we are targeting communications, and being more specific about who is required to do what in response to it.</p>

Audited Activity	Audit Opinion	<u>High Risks</u> and Main Issues	Management Actions Proposed	Follow Up Audit Review: Management Actions Taken / Completed
Land Charges	Limited Assurance 4 High Risks (7 Medium Risks)	<ul style="list-style-type: none"> • Failure to stabilise IT service for the South Hub will result in inefficiency of service and reputational and legal risk. • Failure to implement staff restructuring as soon as possible reduces the savings achievable. 	<ul style="list-style-type: none"> • ICT are currently very aware of this situation and are currently working on a solution. This problem is not isolated to Local Land Charges. This situation will need to be closely monitored when the team are collocated to Trowbridge. • Proposals are currently on hold pending the corporate management structure review 	<p>Since the South Hub team were transferred to Bourne Hill, issues have still arisen with printing problems and setting up access to systems and hardware which have impacted upon service delivery. However, generally the server has now stabilised allowing improved timeliness for processing claims and allowing the team to improve upon turnover performance more recently from 50 to 32 days.</p> <p>The Head of Land Charges has received confirmation of ownership of her post. However, since December 2010, 4 members of staff have left the service (out of a total 8.82 FTE) with 3 replacement staff only just having started in the last few weeks. One of these replacement staff has subsequently resigned.</p> <p>We are about to undertake a service review which is likely to start in May 2011.</p>

Audited Activity	Audit Opinion	<u>High Risks</u> and Main Issues	Management Actions Proposed	Follow Up Audit Review: Management Actions Taken / Completed
Land Charges (cont)		<ul style="list-style-type: none"> • Failure to fully capture land charges data at the earliest opportunity will delay implementation of a single support system, and the efficiencies and consequent savings these will realise. • Failure to further reduce land charges fees could result in future loss of revenues through lack of competitive advantage. 	<ul style="list-style-type: none"> • Project plan and business case is currently being produced. The findings in the audit report will be included in the business case. • This needs to be countered with the possibility that new business received wont balance against the income currently being achieved by customers who are willing to pay the higher fee. Reducing the fee has its own risks with the pressure that the service is under to meet the income figures which are widely recognised to be unachievable. Further research to be undertaken on this. Fees to be reviewed in November following 6 months trading at the revised fee. 	<p>The Interim Programme Director – ICT has confirmed that this work will need to be undertaken as part of the implementation of the new system so the project funding will be used to cover this element.</p> <p>Again, this has been delayed due to the impact of staff turnover and management review.</p> <p>We have not looked at the funding yet. An exercise will be carried out with Finance.</p> <p><i>A revised target date has not yet been provided.</i></p>

Audited Activity	Audit Opinion	<u>Medium Risks and Main Issues</u>	Management Actions Proposed	Follow Up Audit Review: Management Actions Taken / Completed
National Non Domestic Rates	Substantial 5 Medium Risks (No High Risks)	<ul style="list-style-type: none"> • <u>North Hub</u> - Failure to undertake prompt reconciliations between the property base and VO schedules risks delays in actioning amendments, with the potential for incorrect or late billing, and loss of income. • <u>West Hub</u> - Failure to inspect properties on a timely and regular basis risks reliefs being granted inappropriately, incorrect billing arising and potential loss of income. • <u>East and West Hubs</u> - Failure to ensure that reconciliations are authorised by senior management risks the accuracy of the billing run not being checked, resulting in incomplete and inaccurate billing. 	<p>North have been advised to ensure reconciliations are carried out promptly; it is noted that North always try to issue new bills promptly to ensure adequate time for payment. These differences in process will not exist when we move to a single IT system in November 2011.</p> <p>An inspector has been appointed in November 2010 - progress is already being made and the expectation is that all four hubs will operate in the same way.</p> <p>When processing year end in future years, reconciliations will be authorised by the Systems and Performance Manager or the Systems Operations Manager.</p>	<p>Reconciliations are now carried out promptly.</p> <p>Property Inspector now up and running, NNDR properties being regularly inspected.</p> <p>Actioned and in place.</p>

Audited Activity	Audit Opinion	<u>Medium Risks and Main Issues</u>	Management Actions Proposed	Follow Up Audit Review: Management Actions Taken / Completed
National Non Domestic Rates (cont)		<ul style="list-style-type: none"> <li data-bbox="528 405 940 647">• <u>All Hubs</u> - Failure to recover slippage to the project plan following the late signing of the contract, risks implementation of the new system missing the planned go-live date and the start of the 2012/13 financial year. <li data-bbox="528 683 940 831">• <u>All Hubs</u> - Set backs in completing the project will result in planned efficiencies being further delayed and lost cost savings. 	<p data-bbox="963 405 1496 553">Progress against the project plan will be closely monitored by the Project Managers (Wiltshire Council and Northgate) and any slippage and likely impact on the go-live date will reported to the Project Board.</p> <p data-bbox="963 683 1496 831">Progress against the project plan will be closely monitored by the Project Managers (Wiltshire Council and Northgate) and any slippage and likely impact on the go-live date will reported to the Project Board.</p>	<p data-bbox="1529 405 1957 459">Project plan being monitored as per proposed action.</p> <p data-bbox="1529 683 1697 705">As per above.</p>

Audited Activity	Audit Opinion	<u>High Risks</u> and Main Issues	Management Actions Proposed	Follow Up Audit Review: Management Actions Taken / Completed
Trade Waste	Limited Assurance 2 High Risks	<ul style="list-style-type: none"> • The Trade Waste service may suffer poor performance and a damaged reputation due to bad debts being written back to their income budget for reasons that are out of their control. • If the Computer Software is not implemented the benefits of becoming one Council can not be achieved as the service will continue to be run as four different areas based on the old District Councils. 	<ul style="list-style-type: none"> • We are working hard within the department to chase any unpaid debts in conjunction with SST AR. • A business case has been put forward to the Head of Service for approval and funding 	<ul style="list-style-type: none"> • Work continues to chase bad debts. However, clear protocols required to establish who is responsible. The service has committed resources to chase bad debt, but at the start of LGR resources were absorbed by Corporate Finance to undertake this function. It is felt that, without the service continuing to support debt recovery (with it's now depleted resource), high levels of bad debt would remain. Further work required to agree future arrangements. • Service is currently reviewing its requirements for a service-wide asset management and service delivery ICT system. Whilst there is a clear business case supporting the use of a single, consistent system, the provider has yet to be decided. However, costs have been harmonised as have some activities and processes.

Audited Activity	Audit Opinion	<u>High</u> Risks and Main Issues	Management Actions Proposed	Follow Up Audit Review: Management Actions Taken / Completed
CareFirst (DCE)	Limited Assurance 2 High Risks	<ul style="list-style-type: none"> CareFirst system users may not be receiving a satisfactory level of CareFirst availability. The system and support being provided by OLM is unsatisfactory. 	<ul style="list-style-type: none"> A planned upgrade in May 2010 to 10g will result in a more stable and resilient system. <p>A system of automated checks are programmed into the system to check system availability, when a problem is detected a restart of the services or servers is performed.</p> <ul style="list-style-type: none"> DCE to engage at Service Director level with representatives of OLM (Carefirst Vendors). <p>To formally request that Corporate ICT, Business Analyst carry out a market review of the other Social Care Case management systems.</p>	<ul style="list-style-type: none"> The planned upgrade to 10g Application and database servers happened at the beginning of February 2011. Monitoring software is used to automatically check the availability of the servers, when a server fails, it automatically reboots the servers. There has been a decrease in the volume and duration of system downtimes. Currently there are no system stability issues Meeting held in May 2010 with Service Director social care and OLM account manager. There has been no progress with a market review of social care systems. As at March 2011, in view of the costs involved in changing systems this is not seen as a viable option

WILTSHIRE COUNCIL

AGENDA ITEM NO. 9

AUDIT COMMITTEE

28th June 2011

CONSULTATION ON THE FUTURE OF LOCAL PUBLIC AUDIT (DCLG)

Cabinet Member: Councillor John Brady – Finance, Performance and Risk

Key Decision: No

Executive Summary

This report sets out Wiltshire Council's proposed response to the consultation document issued by the Department for Communities and Local Government (DCLG), entitled the Future of Local Public Audit. This relates to external audit arrangements and various associated matters. The proposals provide, amongst other things, for:

- The establishment of a regulatory framework that is similar to the framework for the private sector. It would involve the National Audit Office setting Codes of Practice for external audit. The Financial Reporting Council and 'Recognised Supervisory Bodies' would be responsible for regulating external audit services.
- Councils appointing their own external auditors.
- An enhanced role for audit committees, including giving them responsibility for advising on whether non-audit work should be carried out by external auditors and potentially receiving whistle blowing complaints and ensuring they are investigated.
- The appointment of independent Chairs and Vice-Chairs of Audit Committees and a majority of independent members of Audit Committees.
- The consultation also asks whether councils should be required to produce annual reports containing specified information.

Whilst supportive of large elements of the proposals, including introducing more independent members, the Council wants to raise a number of issues for DCLG to consider as it concludes on its thinking. A draft detailed response is set out at Appendix A to this report.

Proposals

Members are asked to support or recommend amendments to the draft responses attached at Appendix A to this paper.

Members assess the benefit of attending other Audit Committees to observe the role of independent members and to discuss with those bodies the benefits and key issues to be aware of in appointing independent members.

Reason for Proposal

DCLG has sought feedback on its proposals on the future of local public audit, and the Audit Committee will play a key role in that future and is considered the right forum for this to be discussed, considered and formulate a response.

Michael Hudson
Chief Finance Officer

AUDIT COMMITTEE

28th July 2011

CONSULTATION ON THE FUTURE OF LOCAL PUBLIC AUDIT (DCLG)

Cabinet Member: Councillor John Brady – Finance, Performance and Risk

Key Decision: No

PURPOSE OF REPORT

1. This report sets out the key issues contained within a consultation document issued by the Department for Communities and Local Government (DCLG), entitled the Future of Local Public Audit. It also sets out Wiltshire Council's proposed response to the proposals out for consultation.

BACKGROUND

2. On 13 August 2010, The Secretary of State for Communities and Local Government announced plans to disband the Audit Commission and "re-focus audit on helping local people hold their councils and other local public bodies to account for local spending decisions".
3. In April 2011 the Department for Communities and Local Government (DCLG) then issued a consultation paper: "Future of local public audit", that sets out the Government's vision. The consultation is wide ranging and provides details of the Government's proposals to change the audit of local councils and other local public bodies (although not Pension Funds), and consults on a range of other related issues.
4. The Government intentions are to build upon the framework for external audit present in the private sector, supplementing it with additional features and safeguards where necessary. In summary the Government intentions are as follows:
 - To require the National Audit Office to prepare Codes of audit practice, which prescribe the way in which external auditors are to carry out their functions. Such Codes of practice will continue to be approved by Parliament. (This function is currently the responsibility of the Audit Commission).
 - To require the accountancy professional bodies, under the supervision of the Financial Reporting Council (FRC), to be responsible for the registration of audit firms, individual auditors able to undertake public audit and for the monitoring and enforcement of audit standards. (The FRC currently has this role for private sector audit work).

- Principal local authorities, defined as those with annual income and expenditure over £6.5million, would appoint their own auditors with decisions made by full Council, taking into account the advice from a new independently chaired audit committee.
5. The paper includes 50 consultation questions including 41 questions for principal authorities, such as Wiltshire Council, and 9 for smaller bodies. It is proposed to respond to the 41 questions for principal authorities and comment on other areas.
 6. The remainder of this report highlights the key points of the consultation and suggests the Council's response. The consultation questions and the Council's comments are attached at Appendix A along with a draft response from the Council.
- ***Regulation of Local Public Audit***
7. Once the Commission has been abolished, there is a requirement for local public audit to be regulated differently. The consultation paper describes how other sectors regulate audit work and then makes recommendations that would result in regulation becoming similar to the arrangements adopted in the private sector.
 8. Under the Companies Act 2006, private sector external audit is regulated by the Financial Reporting Council (FRC). This includes having statutory powers delegated to it for the recognition and supervision of the professional accounting bodies who supervise the work of their members. The professional accounting bodies, as Recognised Supervisory Bodies (RSBs) are, in turn, responsible for putting rules and regulations in place which their members must fulfil before they can be a registered auditor.
 9. The consultation paper sets out proposals to adapt the regulation of audit work in the private sector for use in local public bodies in the following ways:
 - The National Audit Office would develop and maintain Codes of audit practice and any supporting guidance.
 - The Financial Reporting Council would regulate who can undertake local public audit
 - Recognised Supervisory Bodies would be responsible for monitoring the quality of audit work undertaken by their members, investigating complaints and disciplining their members as required. They could also stop an audit firm from being eligible for appointment as a public auditor on grounds of suitability or quality. Essentially, this means that there will be a list of audit firms who are recognised as qualified to undertake public audit work (referred to as the register of local public statutory auditors). The list could be kept by the RSBs or another body.

Wiltshire Council comments:

10. The Council agrees with the proposals for the regulation of local public audit. As part of this, we believe the National Audit Office (NAO) should be responsible for maintaining and reviewing the register of statutory local public auditors, with support or advice from the Financial Reporting Council as necessary.
11. We also believe that the NAO should be required to approve any 'Recognised Supervisory Bodies' and require any bodies to demonstrate to the NAO that they are supervising auditors in accordance with appropriate standards.
12. Overall the consultation proposes a decentralisation of responsibilities from the Audit Commission to local government. It is not clear that this move will provide any genuine choice or flexibility in the provision of services to local people as there is currently a limited number of suppliers, of which Wiltshire has one of the private sector providers anyway (KPMG LLP). Instead there is a risk that the new arrangements will involve the whole of local government in commissioning and regulatory activity that takes far more time and costs more than existing practices.
13. As such one of the premises on which the consultation is based - that of the fact that the introduction of a competitive process for the appointment of external auditors will reduce the level of fees paid is potentially flawed. In addition, if some or all of the most burdensome options set out in the consultation paper are selected, this would also have an impact on the overall cost of the audit. There is a high risk therefore that unless the scope of the audit is also addressed there will be no strong downward pressure on audit fees and that audit fees will either remain at similar levels to those charged currently or increase in future years.

- *Commissioning Local Public Audit Services*

14. The consultation paper proposes that all larger local public bodies (defined as those with income/expenditure over £6.5million) will be able to appoint their own external auditor. The appointed auditor must be on the register of local public statutory auditors.
15. To ensure that the relationship between council and auditor does not become too close, a system of rotation is proposed. The auditor would be reappointed annually by the full council on the advice of the audit committee, but the audited body must undertake a competitive appointment process within five years. The council can, if it wishes, re-appoint the existing external auditor for a further five year period, but must appoint a different audit firm at the end of the second five year period.

Wiltshire Council comments:

16. The Council agrees with the proposals for the appointment of external auditors.

- **Proposals for new Audit Committees**

17. The consultation proposes that each larger public body should have an audit committee with a majority of members independent of the local public body and with some elected members to strike a balance between objectivity and in-depth understanding of the issues.
18. The consultation paper recognises that there is more than one way of arranging such an audit committee but sets out the following possible structure:
 - The audit committee chair and vice-chair would both be independent of the local public body (i.e. not elected members).
 - The elected members on the audit committee should be non-executive, non-cabinet members sourced from the audited body. At least one should have recent and relevant financial experience, but with a recommendation that a third of the members have recent and relevant financial experience where possible.
 - There would be a majority of members of the committee who are independent of the local public body.

Wiltshire Council comments:

19. The Council agrees with the principle that elected audit committee members should be non-executive, non-cabinet members. We also agree with the requirements for relevant financial experience, although it would help if 'relevant financial experience' could be defined. To this end Members may wish to observe other audit committees, such as an RSL or PCT, to see how the role of an independent works and assess the benefits and issues to consider.
20. Wiltshire Council has an Audit Committee consisting of 15 elected Members who, collectively, have a wide range of skills and experience, including a number with a finance background. The proposals set out in the consultation for independent members are not new; Wiltshire Council has had independent members on both Standards Committees and District Audit Committees prior to unitary status. As such the Council agrees with CIPFA guidance that the appointment of independent audit committee members can bring additional expertise to audit committees and, therefore, make them more effective, provided the right appointments are made and it is the governance of that that is essential.
21. The Council feels however that Members should retain the primary responsibility for meeting these requirements, including making appropriate audit committee arrangements. Wiltshire Council therefore agrees that local authorities should consider the appointment of independent Chairs / Vice-Chairs and a majority of independent members, where appropriate, but disagrees that these should be of legislation.

22. DCLG might want to make it a statutory requirement for local authorities to establish Audit Committees to operate in accordance with CIPFA or other relevant guidance.

- **Scope of audit**

23. The consultation paper presents four possible options for the scope of the audit of councils. These are:

Option one: The scope of the audit would become similar to private companies with the auditor giving an opinion on the financial statements and reviewing and reporting on other information published with the financial statements. There would be no assessment of value for money under this option.

Option two: The scope would be similar to the current system in local government, with auditors providing an opinion of the financial statements, concluding as to whether there were proper arrangements to secure value for money and reviewing and reporting on other information including the annual governance statement.

Option three: New arrangements to provide stronger assurances on regularity and propriety, financial resilience and value for money.

Option four: A new requirement for councils to prepare and publish an annual report, which would be reviewed by the auditor with them providing reasonable assurance on the annual report.

24. Auditors would continue to have the power to prepare public interest reports, with the costs of such reports being recovered from the audited body.

Wiltshire Council comments:

25. Wiltshire Council supports option one, with an audit that is carried out in a similar vein to that of a private company. The Council feels that there are sufficient other arrangements in place to make assessments on value for money and governance, including the role of the Audit Committee. The Council also now publishes all expenditure over £500 and holds regular public events where questions of value for money are addressed. The Council feels it should not be necessary to broaden the work done (and associated costs) in relation to regularity, financial resilience and VFM.

26. Wiltshire Council agrees with increasing transparency and improving reporting to the Public and agrees the external auditor could have a role in ensuring any annual report is consistent with the Council's activities. However, it would be important to limit any additional requirement on the external auditor to ensuring consistency only, as any detailed audit requirement could not be supported if the work proved costly. If this could not be achieved, Councils could be given guidance on the production of annual reports and left to implement this themselves as appropriate.

- **Other Proposed changes**

27. The document identifies proposals for various other miscellaneous matters that are part of the existing Audit Commission framework. These include:

- Giving external auditors a right to produce public interest reports where necessary.
- Extending arrangements allowing external auditors to carry out non-audit work. Proposals in this regard include a role for the Audit Committee in providing advice on whether any non-audit work should be undertaken.
- Giving audit committees 'prescribed person' status under the Public Interest Disclosure Act 1998 for disclosures relating to "the proper conduct of public business, value for money, fraud and corruption in local government and health service bodies". (*Note - the Public Interest Disclosure Act 1998 (PIDA) is popularly known as a 'Whistleblowers' protection act. It protects employees who make disclosures about a range of subjects from recriminations. Whistleblowers can claim PIDA protection by disclosing their concerns either to their employer or, if they prefer, to another organisation authorised to receive disclosures (a 'prescribed person')*).
- Retaining provisions in relation to the Public's right to inspect local authorities' accounts, but removing the Public's right to make objections to the accounts.
- Introducing options for smaller body audits, including parish and town councils that cover the appointment and assurance of independent examiners and auditors dependent upon the scale of the bodies' income and/or expenditure.

Wiltshire Council comments:

28. Wiltshire Council agrees in principle to the suggestions. We would, however, make the following comments for the CLG to consider in finalising its proposals:

- CLG might want to consider whether the NAO could have an oversight role in relation to public interest reports in case the need arises to have an arbiter between the public body and the auditor
- some electors create substantial amounts of work and cost to councils in responding to questions on the accounts. The opportunity should be taken to limit the amount of time and cost involved in responding, by enabling councils to manage responses where a financial cost limit is likely to be exceeded, in the same way as is applied under the Freedom of Information Act (FOI).

29. On the issue of smaller bodies we do not feel that the proposals meet with the current localism plans. The proposals place too much burden on the local authority and the benefits will not outweigh the costs. As such we suggest this area of the proposal should be reconsidered.

Implications

30. This report is in response to a DCLG consultation and does not have any recommendations to change the Council's current policy or decision making framework.

Risks assessment

31. Most of the proposals included in the consultation paper include logical proposals for the future of public audit following the abolition of the Audit Commission. Proposals relating to the appointment of independent audit committee members are more profound. If we do not respond to the proposals, there is a risk that our views are not taken into account and proposals that we disagree with are imposed upon local authorities.

Equalities and diversity impact of the proposals

32. None, although if independent members were appointed the Council would need to follow its existing policies and procedures regarding appointments.

Financial implications

33. There are no direct financial implications associated with this paper.

Legal Implications

34. None have been identified as arising directly from this report.

Proposals

35. Members are asked to support or recommend amendments to the draft responses attached at Appendix A to this paper.

36. Members assess the benefit of attending other Audit Committees to observe the role of independent members and to discuss with those bodies the benefits and key issues to be aware of in appointing independent members.

Reasons for proposals

37. DCLG has sought feedback on its proposals on the future of local public audit, and the Audit Committee will play a key role in that future and is considered the right forum for this to be discussed, considered and formulate a response.

Background Papers and Consultation

Future of local public audit, Consultation paper by the Department for Communities and Local Government

Contact Name:

Michael Hudson, Chief Finance Officer, ext 713601
michael.hudson@wiltshire.gov.uk

Appendices:

Appendix A: Consultation questions and the Council's proposed response

Future of Local Public Audit – Consultation Questions and Response from Wiltshire Council

Consultation Question	Draft Response
<p>1 Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?</p>	<p>The authority agrees that the correct design principles have been considered and that the proposals in the document substantially meet these design principles.</p> <p>Although we note that there are extensive provisions already in place to allow for the transparency of public expenditure decisions. As such we challenge whether a complete overhaul of public sector audit arrangements is needed to further increase transparency and dispute the level of appetite for greater transparency in public sector accounts per se.</p> <p>We also question whether the introduction of a competitive process for public audit contracts will provide for the possibility of lower fees. It cannot provide a guarantee that this will be the result. In fact unless the scope of the audit as discussed further on in our response, is addressed, there is a very real risk that fees will increase rather than decrease over time. In addition, there will be a hidden but real cost resulting from hundreds of individual organisations, including the 250+ parish councils in Wiltshire, becoming responsible for their own external audit procurement process. Also, if some or all of the most burdensome options set out in the consultation paper are selected, this would also have an impact on the overall cost of the audit.</p> <p>We also point out that there is nothing inherent within the proposal that indicates the likelihood of any change to existing standards of auditing.</p> <p>Wiltshire Council notes however that the proposals do not cover Pension Funds and would ask DCLG to clarify either the reason for this or to identify proposals for those bodies, of which Wiltshire Council is custodian.</p>

Consultation Question	Draft Response
2 Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?	We have no comments on this question
3 Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?	Yes
4 Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?	Yes, although there should be a limit on the cost that should be charged to local Councils.
5 Who should be responsible for maintaining and reviewing the register of statutory local public auditors	<p>We believe the National Audit Office (NAO) should perform this role, with support or advice from the Financial Reporting council as necessary.</p> <p>We also believe that the NAO should be required to approve any 'Recognised Supervisory Bodies' and require any bodies to demonstrate to the NAO that they are supervising auditors in accordance with appropriate standards.</p>
6 How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?	<p>CLG could consider an assessment process for new firms. Firms must be able to demonstrate they could carry out the wide scope of public audit as described in paragraph 1.19 of the consultation paper.</p> <p>In addition to routine quality assurance arrangements outlined in the paper, DCLG could also require a specific quality assurance check on new firms' performance after, say, two years of an audit appointment, with positive confirmation required of a firm's ability to undertake public audit.</p>
7 What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?	Firms must be able to demonstrate they could carry out the wide scope of public audit as described in paragraph 1.19 of the consultation paper.

Consultation Question	Draft Response
8 What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?	There should be no distinction in local councils and all councils should be subject to the same regulation.
9 There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?	There should be no distinction in local councils and all councils should be subject to the same regulation. Any additional oversight should be provided to the NAO as a power to use exceptionally, rather than a requirement. In this way, the power could be used when necessary while minimising costs.
10 What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?	It would be the role of the regulator to carry out or commission any investigation deemed necessary under any additional regulation powers.
11 Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?	<p>The proposals appear fine, although clarification of what is intended by "... with opportunities for the electorate to make an input" would be helpful.</p> <p>With regard to proposals for ensuring joint procurement, we feel this should be an option and not a requirement as geography and other factors such as systems may not make this a sensible approach.</p>
12 Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?	The criteria documented for choosing independent members seems to focus primarily on avoiding conflicts of interests. The Council's view is that the effective operation of Audit Committees would be better served by focussing on the skills and experiences of Committee members appointed and through specifying skills to assess when appointing. A well-informed, highly motivated and interested committee member, even if they are not 'independent' is likely to prove more

Consultation Question	Draft Response
	effective than one who does not possess the skills, desire and time to apply to the demands of the role, however independent they are.
13 How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?	We believe it is necessary for members to have financial expertise, although It is imperative that any member of the Audit Committee has the widest appropriate skills and experience that enhances the overall performance of the Committee. Whilst accepting that training can support this process, it would be beneficial that any member had some expertise that they bring with their appointment. Such expertise should not be limited just to finance but could include areas such as performance management, risk management and audit.
14 Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?	The Council has not experienced difficulties in the past and does not feel remuneration would be required if meetings were minimal and set around a prescribed annual cycle of 4 -5 meetings. However, the Council accepts that this may not be possible for other parts of the Country as the size of the potential number of candidates will in some way be dependent on the expectations of the skills that independent members must have. It is likely that the more expectations exist about skills and experience, the smaller the pot of talent is likely to be in some areas due to the makeup of local businesses. The Secretary of State will need to issue legislation to enable an independent chair to having voting powers.
15 Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also	The Council welcomes the principal of increasing independent representation on the Audit Committee to help strike a balance between objectivity and an in-depth knowledge of the issues. The Council's view is that any new regulation

Consultation Question	Draft Response
ensuring a decentralised approach?	should stipulate the level of independent membership, ideally setting this at a minimum of one and certainly not trying to impose more 50% independent membership or that the chair must be independent.
16 Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?	<p>The Council feels that Option 2 on page 28 of the consultation papers best reflects to requirements of an effective audit committee, including providing a robust role for the audit committee in ensuring independence of the auditor.</p> <p>However, the Audit Committee should make recommendations to the Council about policy on the provision of non-audit work, rather than setting the policy. It should be for the Council to set policy.</p>
17 Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?	<p>We agree the responsibilities set out in Option 2 on page 28 of the consultation are appropriate.</p> <p>The Council feels that the Chartered Institute of Public Finance and Accountancy (CIPFA) and the NAO should produce guidance on the role of audit committees, and that it should not be necessary for the detailed responsibilities to be specified in legislation.</p> <p>DCLG might want to consider including in legislation the Audit Committee's role in relation to the appointment of auditors.</p>
18 Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?	The process for the appointment of an auditor should be set out in the guidance produced by CIPFA and the NAO (referred to above in response to question 17).
19 Is this a proportionate approach to public involvement in the selection and work of auditors?	The reasons for public representation and definition of 'material' should be clearly laid down so that vexatious reasons cannot be taken into account

Consultation Question	Draft Response
	and delay the process.
20 How can this process be adapted for bodies without elected members?	We have no comments on this question
21 Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?	We have no preference between the options stated. DCLG could require the person responsible for the financial administration of the Council under Section 151 of the Local Government Act 1972 (the Section 151 Officer), to advise the Secretary of State if the Council has failed to appoint an auditor by a specified date, which we suggest could be 30 June in the year in question (i.e. 30 June 2012 for the year 2012/13).
22 Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?	Notification should be required by exception, using the approach referred to above in response to question 21.
23 If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?	As per the responses above to questions 21 and 22, the Secretary of State for CLG should be notified where an appointment has not been made.
24 Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?	In principle we agree with this proposal, however assessment needs to be made of the level of choice within certain reasons, and we feel that it may be possible to have the period for a longer term, say another 5 years if the Appointed auditor is rotated after 6 or 7 years as is currently the case.
25 Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?	The relevant ethical standards are established and should provide sufficient safeguards.
26 Do the proposals regarding the	Yes, but please note comments in

Consultation Question	Draft Response
reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?	response to question 24.
27 Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?	Yes, we agree the proposals provide sufficient safeguard.
28 Do you think the new framework should put in place similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?	Yes
29 Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provides sufficient assurance and transparency to the electorate? Are there other options?	<p>Wiltshire Council supports option one.</p> <p>The Council feels it should not be necessary to broaden the work done (and associated costs) in relation to regularity, financial resilience and VFM. Wiltshire Council agrees with increasing transparency and improving reporting to the Public and agrees the external auditor could have a role in ensuring any annual report is consistent with the Council's activities.</p> <p>However, it would be important to limit any additional requirement on the external auditor to ensuring consistency only, as any detailed audit requirement could not be supported if the work proved costly. If this could not be achieved, Councils could be given guidance on the production of annual reports and left to implement this as appropriate.</p>

Consultation Question	Draft Response
<p>30 Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?</p>	<p>Wiltshire Council feels that local public bodies should be required to set out their performance and plans in an annual report. The reasons being it:</p> <ul style="list-style-type: none"> • Provides the community with a tool to extend their understanding of how council money is spent and what services are provided for that money. Subsequently it will provide information for the community to hold the council to account. • Provides assurance and transparency to the local taxpayer in a meaningful and consistent format • Is a good management information tool for managers • Much of the information will be readily available throughout the organisation • Is a good single point of references for customers, auditors and staff at all levels in the organisation • Could be utilised for comparison purposes by other organisations and potentially reduce individual request for similar information.
<p>31 Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?</p>	<p>Yes – see above in response to question 30.</p>
<p>32 Should the assurance provided by the auditor on the annual report be ‘limited’ or ‘reasonable’?</p>	<p>The external auditor should be required to give reasonable assurance that the annual report is consistent with their knowledge of the organisation. However, any other form of opinion is outside of the scope of the current International Auditing Standards and as such would not be possible.</p>

Consultation Question	Draft Response
<p>33 What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?</p>	<p>DCLG should produce and maintain guidance relating to the provision of annual reports, or highlight sector-led guidance that councils could follow. Any guidance should take into account the objectives of an annual report, outlined above in response to question 30, as well as any more formal requirements, for example to ensure the accuracy and consistency of financial information included.</p> <p>DCLG might want to stipulate minimum information requirements, which might in turn assist with comparison /benchmarking across councils. However, there should also be flexibility for councils to include information that is important to local stakeholders. DCLG may also want to stipulate a timetable for the publication to ensure the information is timely.</p> <p>Above all this should not be a costly exercise to produce 'glossy magazines' that add no value to the council tax and business rate payers of the local community.</p>
<p>34 Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?</p>	<p>Yes, although DCLG might want to consider whether the NAO could have an oversight role in relation to public interest reports in case the need arises to have an arbiter between the public body and the auditor.</p>
<p>35 Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?</p>	<p>Yes, although thresholds should be set above which the Audit Committee should take the decision based on advice about other providers.</p>

Consultation Question	Draft Response
36 Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?	Yes, an appropriate balance would be achieved through the proposals.
37 Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?	Yes, we agree
38 Do you agree that we should modernise the right to object to the accounts? If not, why?	Yes, we agree
39 Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?	<p>It is not clear in sections 4.52 to 4.54 what changes to the current process are being proposed. The difference between raising objections to the accounts and making representations to the auditor is not sufficiently well defined to establish whether the process is the most appropriate one or not.</p> <p>However, it is worth drawing to DCLG's attention that some electors create substantial amounts of work and cost to councils in responding to questions. The opportunity should be taken to limit the amount of time and cost involved in responding, by enabling councils to manage responses where a financial cost limit is likely to be exceeded, in the same way as is applied under the Freedom of Information Act (FOI). To ensure though Council's take all cases seriously the responses should be assessed.</p>
40 Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders?	Yes, we agree, although we do not see occasions where the external auditor would hold information the Council had not already been asked. So FOI for the

Consultation Question	Draft Response
If not, why?	external auditors will relate more to its services. As such we would not want to see additional costs passed on to the Council.
41 What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?	It is not felt that there would be any significant impact on the auditor / audited body relationship. However, in relation to costs and audit fees, experience shows that some electors submit substantial requests under the FOI and if the cost of auditors' responses are passed on to councils, this could have a significant cost implication and CLG should look at ways of limiting such costs.
42 Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?	<p>Option 2 supports the current agenda of localism, but would lead to significant costs if smaller bodies such as Parish Councils are required to establish Audit Committees. We consider current proposals sufficient to negate this additional need.</p> <p>Both proposals within the consultation set out unnecessary levels of bureaucracy and burdens for the benefits to be gained and we suggest that DCLG completely review these proposals.</p>
43 Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?	<p>We do not agree with this. This places considerable additional burdens on the Council and the Section 151 Officer.</p> <p>We agree with the limits suggested in the Table on page 51 and feel that the smaller bodies should be allowed to manage the process themselves under the spirit of localism. Local authorities should seek assurances by exception from Clerks that an examiner or auditor has been appointed, as for local authorities to the NAO discussed above. The examiner or auditor should have the independent ability to draw the Section</p>

Consultation Question	Draft Response
	151 Officer's attention to any matter he/she feels necessary in discharging their duties.
<p>44 What guidance would be required to enable county/unitary authorities to:</p> <p>a.) Appoint independent examiners for the smaller bodies in their areas?</p> <p>b.) Outline the annual return requirements for independent examiners?</p> <p>Who should produce and maintain this guidance?</p>	<p>This is covered above.</p> <p>Any guidance should be set by the NAO to ensure consistency with the audit of all public bodies.</p>
<p>45 Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?</p>	<p>Addressed in response to questions 42 and 43.</p>
<p>46 Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?</p>	<p>Addressed in response to questions 42 and 43.</p>
<p>47 Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?</p>	<p>The approach suggested is logical.</p>
<p>48 Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?</p>	<p>No comment</p>
<p>49 Is the process set out above the most appropriate way to deal with issues</p>	<p>Addressed in response to questions 42 and 43.</p>

Consultation Question	Draft Response
raised in relation to accounts for smaller bodies? If not, what system would you propose?	
50 Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?	Addressed in response to questions 42 and 43.

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Annual Governance Statement 2010/11

Purpose of the report

1. To ask the Audit Committee to consider a draft Annual Governance Statement for 2010/11 for preliminary comment before final approval is sought from the Committee at its meeting in September 2011.

Background

2. The Council is required, as part of its annual review of the effectiveness of its governance arrangements, to produce an Annual Governance Statement (AGS) for 2010/11. This has to be signed by the Leader of the Council and the Chief Executive after final approval by the Audit Committee on 28 September 2011 and forms part of the Statement of Accounts.
3. Based on advice from the Chartered Institute of Public Finance and Accountancy (CIPFA), the AGS should include:
 - an acknowledgement of responsibility for ensuring there is a sound system of governance, incorporating the system of internal control;
 - an indication of the level of assurance that the systems and processes that comprise the Council's governance arrangements can provide;
 - a brief description of the key elements of the governance framework, including reference to group activities where those activities are significant;
 - a brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements;
 - an outline of the actions taken, or proposed, to deal with significant governance issues, including an agreed action plan.
4. The AGS for Wiltshire Council should demonstrate how the Council is meeting the six principles of good governance adopted in its Code of Corporate Governance. These principles are:

- focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area;
 - councillors and officers working together to achieve a common purpose with clearly defined functions and roles;
 - promoting values for the council and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
 - taking informal and transparent decisions which are subject to effective scrutiny and managing risk;
 - developing the capacity and capability of councillors and officers to be effective;
 - engaging with local people and other stakeholders to ensure robust accountability.
5. The AGS is primarily retrospective. It reports on the assurance framework and measures in place for the financial year 2010/11, but must take account of any significant issues of governance up to the date of completion on 28 September 2011. The AGS should outline the actions taken or proposed to address any significant governance issues identified.
 6. The AGS is drafted by members of the Governance Assurance Group, which comprises senior officers who have lead roles in corporate governance and member representatives from the Audit Committee and the Standards Committee.
 7. The evidence for the AGS comes from a variety of sources, including an assurance framework, directors' assurance statements, relevant lead officers within the organisation and external auditors and inspection agencies.

Draft AGS - Content

8. A copy of the draft AGS for 2010/11 is attached at Appendix 1.
9. The draft reflects the elements described in paragraph 3 of this report and has regard to revised guidance from CIPFA. The draft is based on work undertaken to date and will be revised in the light of further work by the Governance Assurance Group and any observations of this Committee, Cabinet, Standards Committee and the Council's external auditors, KPMG.

10. Section C of the AGS describes the Council's governance framework for the relevant period, namely April 2010 to date. The final version will need to reflect the position up to the date of approval and signature in September 2011.
11. Section D provides a review of the effectiveness of the Council's governance framework. This section has been structured to reflect the key governance principles set out in the Council's Code of Corporate Governance.
12. The levels of assurance obtained from the range of audits completed during the year has led Internal Audit to the provisional overall audit opinion that for 2010-11 it is able to give a substantial assurance on the adequacy and effective operation of the Council's overall control environment.
13. The Governance Assurance Group is obtaining assurance statements from directors in relation to their services. These will be reviewed over the summer period and any issues which impact upon the Council's governance arrangements will be included in a further revision of the draft AGS and highlighted at the next meeting.
14. Section E of the draft AGS requires the Council to identify any significant internal control issues affecting the Council during the relevant period.
15. CIPFA guidance suggests that an internal control issue is to be regarded as significant if:
 - the issue has seriously prejudiced or prevented achievement of a principal objective;
 - the issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business;
 - the issue has led to a material impact on the accounts;
 - the audit committee, or equivalent, has advised that it should be considered significant for this purpose;
 - the Head of Internal Audit has reported on it as significant, for this purpose, in the annual opinion on the internal control environment;
 - the issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation;
 - the issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.

16. The following have been identified as significant governance issues at this stage in view of their size, complexity and impact on the delivery of the Council's priorities:

- SAP financial systems
- Housing Landlord Service Improvement Plan
- Implementation of the Transformation Programme
- Managing significant reductions in Government funding and changes in legislation
- Governance arrangements for dealing with complaints involving third parties

17. Details on these issues are set out at paragraphs 95-104 of the draft AGS.

18. Any variation or further significant governance issues that are identified will be reported to the meeting of Audit Committee in September for final consideration and approval.

19. KPMG will be consulted on the draft AGS and their comments will be taken into account in the presentation of the final version to the Committee in September.

Financial implications

20. There are no financial implications arising directly from the issues covered in this report.

Risk Assessment

21. The production of the AGS is a statutory requirement. Ongoing review of the effectiveness of the Council's governance arrangements is an important part of the Council's risk management strategy.

Environmental Impact

22. There is no environmental impact regarding the proposals in this report.

Equality and Diversity Impact

23. There are no equality and diversity issues arising from this report.

Reasons for the Proposal

24. To prepare the AGS 2010/11 for publication in accordance with the requirements of the Audit and Accounts Regulations.

Proposal

25. The Committee is, therefore, asked:

- a. to consider the draft AGS as set out in Appendix 1 and to make any amendments or observations on the content;
- b. to note that the draft AGS will be revised in the light of any comments this Committee may wish to make and the ongoing review work by the Governance Assurance Group. It will then be considered by the Standards Committee and Cabinet before being brought back to this Committee for final approval and publication by 30 September 2011.

Ian Gibbons
Solicitor to the Council and Monitoring Officer

Report Author: Marie Lindsay, Ethical Governance Officer

Unpublished documents relied upon in the production of this report:

None.

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Annual Governance Statement

2010-11

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Section E

Significant Governance Issues

A. Scope of Responsibility

1. Wiltshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. We also have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility, the Council is also responsible for putting in place proper arrangements for the governance of its affairs, including the management of risk, and facilitating the effective exercise of its functions.

B. The Purpose of the Governance Framework

3. The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and the activities through which the Council accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
4. The assurance framework and the system of internal control are significant parts of that framework. They are designed to manage risk to a reasonable level. They cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The assurance framework and the system of internal control are based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The assurance framework also provides a mechanism for monitoring and implementing a system of continuous governance improvement.
5. The governance framework has been in place at the Council for the year ended 31 March 2011 and up to the date of approval of the statement of accounts for 2010/11.

C. The Governance Framework

6. The Council's governance framework comprises a broad range of strategic and operational controls, which work together to ensure the sound running and well being of the Council. The key elements are summarised below.
7. Documents referred to are available from the Council or may be viewed on the Council's website (www.wiltshire.gov.uk).

Purpose and Planning

8. The Council's vision and goals are set out in its 4 year Business Plan, which was adopted by the Council on 22 February 2011. The Council's vision is to create stronger and more resilient communities and in support of this it has the following goals:
 - provide high quality, low cost customer focused services;
 - ensure local, open and honest decision making;
 - working with our partners to support Wiltshire's communities.
9. The Business Plan is supported by a Financial Plan, which demonstrates how it will be funded. The management of the Council's strategic risks helps achieve the Council's objectives.

Policy and Decision-Making Framework

10. The Council's Constitution provides the framework within which the Council operates. It sets out how decisions are made and the procedures which must be followed to ensure that these are efficient, effective, transparent and accountable.
11. The Constitution defines the role and responsibilities of the key bodies in the decision-making process - the Council, Cabinet, and Committees, including the Strategic Planning Committee, Area Planning Committees, Licensing Committee, Overview and Scrutiny Select Committees, Standards Committee, Audit Committee, Staffing Policy Committee, Officer Appointments Committee and Area Boards.
12. The Constitution is reviewed regularly by the Monitoring Officer and the Standards Committee to ensure that it remains fit for purpose. The last major review was undertaken during 2010 by the Standards Committee with the assistance of its Constitution Focus Group. Amendments were agreed by the Council and implemented from 1 December 2010.
13. The Leader, Cabinet, and the Area Boards are responsible for discharging the executive functions of the Council, within the budget and policy framework set by the Council.
14. The Council publishes a Forward Work Plan once a month giving details of all matters anticipated to be considered by the Cabinet over the following 4 months, including items which constitute a key decision.
15. Schemes of Delegation are in place for Cabinet Committees, Cabinet Members and Officers to facilitate efficient decision-making. The Leader has established two Cabinet Committees - the Cabinet Capital Assets Committee and the Cabinet Business Relief Committee.

16. The Council has established 18 area committees known as Area Boards. Each area board exercises local decision making under powers delegated by the Leader.
17. The Overview and Scrutiny arrangements consist of four main select committees covering Organisation and Resources, Children's Services, Environment, and Health and Adult Social Care. The Select Committees have established a number of standing and ad hoc task groups to undertake detailed monitoring and reviews. Rapid scrutiny exercises provide other opportunities when time constraints exist. Scrutiny member representatives can also be appointed to boards of major projects.
18. These arrangements serve to hold the Cabinet, its Committees, individual Cabinet Members and Corporate and Service Directors to public account for their executive policies, decisions and actions.
19. The Standards Committee is responsible for:
- promoting and maintaining high standards of conduct by Members and Officers across the Council;
 - determination of complaints under the Members' Code of Conduct;
 - oversight of the Constitution, complaints in relation to the Council's services, and the whistle blowing policy.

The Standards Committee is chaired by an independent member.

20. The Audit Committee is responsible for:
- monitoring and reviewing the Council's arrangements for corporate governance, risk management and internal control;
 - reviewing the Council's financial management arrangements and approving the annual Statement of Accounts;
 - focusing audit resources;
 - monitoring the effectiveness of the internal and external audit functions;
 - monitoring the implementation of agreed management actions arising from audit reports.

Wiltshire Pension Fund

21. The Wiltshire Pension Fund is overseen by the Wiltshire Pension Fund Committee. This Committee has its delegated power from the full Council, rather than the Executive (Cabinet), so as to avoid any conflict of interest (e.g. in relation to the setting of employer contributions).
22. This Committee is responsible for all aspects of the fund, including:
- the maintenance of the fund;

- preparation and maintenance of policy, including funding and investment policy;
- management and investment of the fund;
- appointment and review of investment managers.

23. The Wiltshire Pension Fund Committee exercises its responsibilities in relation to investment management when it sets investment policy and appoints/monitors external investment managers.

Regulation of Business

24. The Constitution contains detailed rules and procedures which regulate the conduct of the Council's business. These include:

- Council Rules of Procedure
- Budget and Policy Framework Procedure
- Financial Regulations and Procedure Rules
- Contract Regulations
- Members' Code of Conduct
- Officers' Code of Conduct
- Corporate Complaints Procedure

25. The statutory officers - the Head of Paid Service (Chief Executive), the Monitoring Officer (Solicitor to the Council) and the Chief Finance Officer have a key role in monitoring and ensuring compliance with the Council's regulatory framework and the law. The statutory officers are supported in this role by the Council's legal and democratic services, finance, governance and procurement teams and by Internal Audit.

26. The following bodies have an important role in ensuring compliance:

- Audit Committee
- Overview and Scrutiny Committees and Task Groups
- Standards Committee
- Internal Audit
- External Audit and Inspection Agencies.

27. The Council has established a Governance Assurance Group whose membership is composed of senior officers with lead responsibility for key areas of governance and assurance, together with an elected member who is the vice-chair of the Audit Committee, and a member of the Standards Committee. Other officers and members attend by invitation to provide the Group with information about issues on which the steering group is seeking assurance. Officers can also bring any concerns about the Council's governance arrangements forward to the Group for consideration.

29. The Governance Assurance Group meets regularly, and has a forward work plan. It is responsible for gathering evidence for and drafting the Annual Governance Statement. It identifies any potential significant governance issues throughout the year, and oversees the implementation of measures to address these. It has a key role in promoting and supporting sound governance across the organisation.
30. The Group is supported by the Chief Executive, who acts as a link between the Group and the Corporate Leadership Team, ensuring that issues and activities identified by the Group are considered and addressed.

Management of Resources, Performance and Risk

Financial management

31. Financial management and reporting is facilitated by:

- monthly reports to Cabinet on the Council's Revenue Budget and Capital Programme;
- regular review by the Corporate Leadership Team;
- bi-monthly consideration of these reports by the Budget and Performance Task Group;
- budget monitoring by Service Managers;
- compliance with the Council's Budgetary and Policy Framework, Financial Regulations and Financial Procedure Rules;
- compliance with external requirements, standards and guidance;
- publication of Statement of Accounts;
- overseeing role of the Audit Committee.

32. The Council's financial management arrangements are consistent with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government, issued in 2010.

Performance and Risk Management Reporting

33. The Council's Business Plan sets out how the Council will:

- protect our most vulnerable citizens by investing in their services;
- invest in the future of Wiltshire by enhancing key service areas;
- keep the council tax low.
- make savings to cover the cut in government funding and projected investments.

34. It also identifies the benefits and outcomes to be delivered over the next four years. These are supported by corresponding programmes and measures, with clear responsibilities for delivery. A new 'scorecard' approach will be introduced in 2011/12 to report progress on the Business

Plan. This builds on the quarterly progress reports used for the Corporate Plan in 2010/11.

35. The Risk Management Strategy has been reviewed to ensure that risk management arrangements remain appropriate and reflect the Business Plan. The revised strategy strengthens risk management arrangements and complies with good practice so that opportunities and threats are identified and managed to help achieve the Council's priorities.
36. Reports which cover the significant corporate risks are submitted to the Corporate Leadership Team on a quarterly basis and to the Audit Committee six monthly.
37. The Council's Business Continuity Policy provides a framework to maintain and develop business continuity arrangements at both corporate and service levels. It sets out the responsibilities of different management levels and groups as part of this process. Within this framework the Council has a Corporate Business Continuity Plan, which outlines the arrangements that will operate in the event of a major service disruption. Service Business Continuity Plans are being developed in conjunction with the Corporate Business Continuity Plan to address service specific issues and incidents.

Internal Audit

38. The main role of Internal Audit is to provide an independent and objective opinion to the Council on its internal control environment, comprising risk management, control and governance by evaluating its effectiveness in achieving the Council's objectives.
39. Internal Audit has the following additional responsibilities:
 - providing support to the Chief Finance Officer in meeting his responsibilities under Section 151 of the Local Government Act 1972, to make arrangements for the proper administration of the Council's financial affairs;
 - investigating any allegations of fraud, corruption or impropriety;
 - advising on the internal control implications of proposed new systems and procedures.
40. The annual Internal Audit Plan is based on an assessment of risk areas, using the most up to date sources of risk information, in particular the Council's Corporate and Service Risk Registers. The Plan is agreed with Corporate Directors and Service Directors, and presented to the Audit Committee for approval. The Committee receives reports of progress against the plan throughout the year. The Internal Audit Annual Report summarises the results and conclusions of the audit work throughout the year, and provides an audit opinion on the internal control environment for the Council as a whole.

External Audit and Inspections

41. The Council is subject to reviews by external inspection agencies, including the Audit Commission, OFSTED, and the Care Quality Commission (CQC). The results of these inspections are used to help strengthen and improve the Council's internal control environment and help secure continuous improvement.
42. The government has announced that the Audit Commission will be disbanded and we will look at the proposals for new external audit arrangements as these become available.

Directors' Assurance Statements

43. ***[This section is to be completed following review of the Directors' Assurance Statements]***

Monitoring Officer

44. The Monitoring Officer has not made any adverse findings in the course of the exercise of his statutory responsibilities. ***(Keep this under review none as yet this year)***

D. Review of Effectiveness

45. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.
46. The key principles of corporate governance are set out in the Council's Code of Corporate Governance as follows:
 - Focusing on the purpose of the Council and on outcomes for the community, creating and implementing a vision for the local area;
 - Engaging with local people and other stakeholders to ensure robust public accountability;
 - Ensuring that members and officers work together to achieve a common purpose with clearly defined functions and roles;
 - Promoting high standards of conduct and behaviour, and establishing and articulating the Council's values to members, staff, the public and

other stakeholders;

- Taking informed, risk based and transparent decisions which are subject to effective scrutiny; and
- Developing the capacity of members and officers to be effective in their roles.

47. The effectiveness of the Council's assurance framework and system of internal control is assessed against these six principles.

Focus on the purpose of the Council and on outcomes for the community, creating and implementing a vision for the local area

48. The Council's vision and goals are set out in its Business Plan 2011-2015. This is consistent with the long term priorities that are set out in the Community Plan 2011-2026.

49. The Community Plan (our sustainable community strategy) was developed with partners during 2010/11 and approved by the Council on 17 May 2011. It gives partner organisations a set of general principles to check their plans against. It has three long term priorities:

- Creating an economy that is fit for the future;
- Reducing disadvantage and inequalities;
- Tackling the causes and effects of climate change.

Engaging with local people and other stakeholders to ensure robust public accountability

50. The Council has taken steps to make its purpose and responsibilities clear to staff and the community it serves. These have included:

- A series of 18 community area seminars during March and April 2011 discussing the Council's approach to localism as set out in the Business Plan, what this means for communities and the role local people can play in the future.
- Regular staff briefings by the Leader and Chief Executive and involvement in the corporate induction process.
- Communication channels, including the Council's website and Intranet, Team Wire and Elected Wire (an on-line briefing for staff and councillors respectively), Your Wiltshire residents magazine, delivered to all households in Wiltshire and providing information about Council services, how to get involved, and information from partner agencies. The Council also arranges face-to-face events, including road shows, area boards, contact centres, customer forums

and exhibitions.

51. The ongoing development of area boards has played a key role in ensuring robust public accountability and engagement with more than 7,200 people attending area board meetings. Over 1,000 local issues have been resolved and over £ 750,000 has been allocated to support 250 community projects, generating in excess of £ 3 million of external funding and investment in our communities.
52. The governance arrangements for the area boards is set out in the Council's Constitution and in further detail in the Area Board Handbook.
53. The Leader undertook a review of the operation of area boards in 2010, involving consultation with councillors, parish councillors, officers, partners and the general public. The review highlighted a number of actions to be taken to develop area boards, and in particular to:
 - ensure that a representative cross section of the community is engaged at a local level;
 - enhance the area boards' decision making role;
 - clarify and promote the role of the community area partnerships;
 - raise public awareness of the area boards;
 - recognise and enhance the role of parishes within the area board framework.
54. A further review will be undertaken during 2011 to assess progress in addressing these issues.
55. Town and Parish Councils have been consulted to determine which functions and responsibilities they would like to have delegated to them and this work continues to be developed. During 2010/11 a number of council assets were transferred to parish councils and other community groups. The Council has adopted a policy for the transfer of assets and continues to keep the governance issues under review.
56. The Council has developed a four year procurement plan that aims to deliver £ 36 million of cashable savings to the Council's revenue budget. The plan is governed by the Corporate Procurement Board, which is chaired by the Director of Resources and has membership from each of the Council's departments at service director level, as well as the Cabinet Member for Procurement.

57. The procurement plan aims to deliver the necessary savings by:

- influencing future spend with our external supplier base;
- negotiating existing arrangements with our key suppliers;
- redesigning and streamlining our procurement processes to make them more efficient;
- developing procurement staff to enable them to deliver the procurement plan.

58. The existing Partnership Protocol and Register has been reviewed and updated to ensure that all partnerships across Wiltshire Council are captured. The revised protocol will ensure that partnerships are underpinned by good governance and to complement the protocol a new electronic database and supporting guidance have been developed.

Ensuring that members and officers work together to achieve a common purpose with clearly defined functions and roles

59. The Constitution sets out clearly the roles and responsibilities of members and officers in the decision making process. This includes schemes of delegation which were reviewed in 2010 as part of the review of the Constitution.

60. The Council has adopted a Member and Officer Relations Protocol which:

- outlines the essential elements of the relationship between members and officers;
- promotes the highest standards of conduct;
- clarifies roles and responsibilities;
- ensures consistency with the law, codes of conduct and the Council's values and practices; and
- identifies ways of dealing with concerns by members or officers.

Promoting high standards of conduct and behaviour, and establishing and articulating the authority's values to members, staff, the public and other stakeholders

61. All staff are required to meet high standards of ethical conduct under the Officers' Code of Conduct. A revised Code of Conduct for Officers was introduced in May 2010.

62. The Council has a Whistle Blowing Policy and an Anti-Fraud and Corruption Policy which were updated in 2010. It has also introduced an Anti Money Laundering Policy. The Standards Committee receives an annual report on the effectiveness of these policies. The Audit Committee has responsibility for monitoring the implementation of the Anti Fraud and Corruption Policy and Strategy.

63. The Council's Governance Team is responsible for customer complaints, access to information legislation, the Code of Conduct for Members, and the promotion of good governance within the Council and with key partners, including the town and parish councils of Wiltshire. This helps to ensure that robust governance arrangements are supported across the Council.
64. The Council is developing a culture that reflects a modern, new organisation that embraces change, treats everybody fairly and values diversity. To this end it has agreed the following core values:
- Placing its customers first;
 - Strengthening its communities;
 - Adopting a 'can-do' approach in everything it does.
65. The Council's Standards Committee plays an important role in overseeing and promoting ethical governance throughout the Council, and this role is established in the Council's Constitution. Further information on its work is contained in its Annual Report for 2010-11. In particular, the Committee is playing an active role in ensuring that the Council has in place arrangements to promote and maintain high standards of conduct following the proposed abolition of the current statutory standards regime as a result of the Localism Bill.
66. The Standards Committee has maintained oversight of ethical governance, receiving reports on the efficacy of the whistle-blowing procedure, customer complaints procedures, the member's Register of Interests, and a range of other governance matters.
67. The Committee has fulfilled its statutory role by receiving, assessing and determining complaints brought under the Code of Conduct for Members in Wiltshire Councils, and has worked to ensure that the processes that underpin this statutory function are kept under review to ensure that they work effectively.

Internal Audit

68. Internal Audit represents an important element of the Council's internal control environment, and to be effective it must work in accordance with the Code of Practice for Internal Audit in Local Government, which lays down the mandatory professional standards for the internal audit of local authorities. The latest review of Internal Audit by the Council's external auditors, KPMG, confirmed that Internal Audit is meeting the various standards laid down by the Code of Practice.
69. The Internal Audit Annual Report summarises the results and conclusions of the audit work throughout the year, and provides an independent audit opinion on the internal control environment for the Council as a whole.

70. The levels of assurance obtained from the range of audits completed during the year has led Internal Audit to the overall audit opinion that for 2010-11 it is able to give a substantial assurance on the adequacy and effective operation of the Council's overall control environment. This represents an improvement over the previous year, when the audit opinion was one of limited assurance, following the major structural reorganisation of moving from five councils into one.
71. The response of management throughout the Council to the results of audit work has continued to be positive and constructive, and in the main appropriate action is being taken to manage the risks identified in audit reports. Progress on the implementation of agreed management actions is reported regularly to the Audit Committee.

External Audit

69. The latest report to those charged with governance, issued by KPMG in respect of Wiltshire Council for 2009/2010, was presented to the Audit Committee in September 2010. The Letter summarised the key issues arising from the audit of Wiltshire Council for the year ended 31 March 2010 and an assessment of the Authority's arrangements to secure value for money in its use of resources.
70. The Letter highlighted the key messages as follows:
- Following the change in government, the use of resources assessment at local authorities ceased with immediate effect in May 2010. The Authority therefore did not receive scores in respect of the 2010 assessment.
 - KPMG concluded that "overall, there are sufficient procedures in place for Managing Finances, with significant improvements noted in the financial statements process." However, KPMG highlighted "that improvements could be made in cost/performance benchmarking, fees and charges strategy and debt monitoring."
 - KPMG concluded that "The Council continues to actively manage its resources with a significant programme in place to rationalise its assets, but areas of improvement can still be made in workforce planning arrangements and obtaining internal and external feedback on staffing matters. Procedures for Governing the Business remain robust overall, and improvements have been made in Data Security"
 - KPMG stated that they "have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of issues appropriately. There were also a couple of areas where the Authority has made significant adjustments to the accounts following further considerations made arising from the audit process."

- An unqualified audit opinion was issued for the 2009/2010 Statement of Accounts. They also reported that the wording of the 2009/2010 Annual Governance Statement accords with their understanding.

Taking informed, risk based and transparent decisions which are subject to effective scrutiny

71. Cabinet Members and Officers exercising delegated powers are required to take decisions in accordance with their respective schemes of delegation. The Leader's protocol for decision-making by Cabinet Members ensures transparency by requiring publication of the intention to make a decision on 5 clear days' notice and the final decision.

72. Risk assessment forms an integral part of management reporting supporting the decision making process.

73. Work of the Council's Overview and Scrutiny Select Committees, task groups and associated activities have focused on:

- Supporting/challenging the delivery of one council benefits and efficiencies, service redesign, harmonisation and transformation;
- Monitoring the performance of the Council's major service providers including external contractors and partners;
- Reviewing the implementation of major corporate projects;
- Monitoring the Council's (and its statutory partners) performance against targets;
- Engaging in the Council's budget setting process and budget monitoring;
- Engaging in the development of the Council's new (four year) Business Plan;
- Initiating reviews into matters of local concern relating to service delivery and contributing to the development and review of policy, including:
 - Gynaecological cancer services, out of hours services, end of life care strategy, Care Quality Commission annual assessment and inspection report, Focus project, Local Safeguarding Adults Board, burn care and soft tissue sarcoma services, GWR ambulance services performance, Dementia Strategy, Helping People to Live at Home review, head and neck cancer services, funding of carers services, mental

health services reconfiguration, older people accommodation strategy.

- Carbon reduction plan, PFI for housing, flood risk management, Local Transport Plan, renewable energy, car parking and waste collection.
- special educational needs (SEN) in mainstream schools, special schools and post-16 SEN, placements for looked after children, adoption and fostering processes, PFI schools, and provision of 16-19 education in specific areas of the county. In considering Cabinet proposals for changes to special educational needs, scrutiny members expressed concern that the public consultation had not aided people's understanding of the relevant issues and the objectives of the review. In response, the Cabinet implemented a number of measures to improve the Council's public consultations in the future.

74. The work undertaken by the Audit Committee this year has included:

- review and approval of the first Annual Governance Statement and Statement of Accounts of the new Council for 2009/10;
- review of the work and findings of Internal Audit, including the Annual Report and audit opinion on the control environment;
- review of the Council's risk managements arrangements;
- review of the work and findings of External Audit, including the Annual Audit Letter and Report to Those Charged with Governance.

75. Risks are identified and monitored by service departments. Significant risks are identified and reviewed on a regular basis by the Corporate Risk Management Group. Reports are issued on the significant risk areas through the Council's reporting arrangements. Training on Risk Management is delivered to Members annually, including the development of specific training for staff involved in risk arrangements as a result of their work.

76. The risks associated with major projects are managed through project management arrangements with regular reporting to the relevant boards and member bodies.

77. From March 2010 work has focused on improving the Corporate Business Continuity Plan. Representatives of services that would have to take a lead role in various kinds of service disruption were involved in designing the response arrangements to ensure that they are realistic and appropriate. The benefit of these arrangements is that they are sufficiently generic to respond to a wide range of service disruptions, using in-house resources as a first line of defence and taking advantage of the flexibility provided by the Campus and Operational Delivery Programme. The

Corporate Business Continuity Plan was presented to the Corporate Leadership Team in November 2010 and has been published internally.

78. Awareness of the business continuity process and response arrangements has been variable across the organisation. Since December 2010 Business Impact Analyses data quality has improved through individual reviews on a service level. Further work will be undertaken with service representatives to improve and embed their business continuity arrangements within their services and to widen the general awareness of business continuity amongst all employees. This will also be used to introduce the identification of expected costs of business continuity strategies.
79. The Business Continuity Policy was reviewed in summer 2010 in order to improve management arrangements.
80. The Council's Business Plan sets out how the Council will manage the risks and challenges arising from the reduction in government funding (28.4% over the next 4 years), and the substantial changes in the way local government is organised.

Developing the capacity of members and officers to be effective in their roles

81. The Council is committed to the ongoing development of its members and recognises the importance of building up the capacity and effectiveness of its members.
82. The Council's Councillor Development Policy:
 - establishes members' individual training needs and allocates budget according to the Council's priorities;
 - ensures equality of access to funds and training events;
 - evaluates the effectiveness of councillor development annually to inform the allocation of funding for future years.
83. A cross party Councillor Development Group meets every eight weeks to monitor the budget and to discuss progress and ideas on member development. The group will submit its application for charter status during 2011.
84. A Comprehensive Councillor Development Programme has been produced for 2011/12. This covers a range of topics from community leadership to ICT skills and links in with the corporate aims and values of the Council. The programme also anticipates the new challenges that will be faced by councillors in relation to the big society and localism agenda.
85. Councillors are asked to complete a training needs assessment form each year and are also offered a one to one meeting with a learning and development professional. The training needs highlighted by this process

are taken into account when producing the development programme to ensure that it is member led.

86. Wiltshire Council continues to deliver key actions from the People Strategy 2008-2012. The People Strategy is being refreshed to link and support the key priorities identified in the Council's Business Plan. The delivery of the People Strategy is critical to enabling us create the capacity we need to work in different ways and successfully meet current and future challenges.

87. Key priorities are:

- Leadership and Management Development - Programmes of development ongoing;
- Councillor Development - a programme has been developed with and for Elected Members;
- Performance Development Framework (Appraisal) refreshed to incorporate the new Council Values and Behaviours and in an electronic format;
- A business focused blended learning programme of employee learning which will include the changing capability requirements e.g. commissioning and partnership skills;
- Corporate Workforce Planning framework - the organisational wide workforce plan is critical in identifying the people resources required now and in the future to deliver the priorities identified in the Business Plan;
- Continue to deliver a programme of Harmonisation of Terms and Conditions;
- Continue to deliver an Employee Assistance Programme in partnership with Job Centre Plus, Independent Financial Advisers and Occupational Health for managers and staff who are at risk of redundancy as part of Service Reviews and operational restructuring;
- Revision of Terms and Conditions of employment to deliver savings to ensure that we have a set of terms and conditions that helps us to compete effectively in the labour market and support retention of key knowledge and skills required to deliver services.

E) Significant Governance Issues

94. The following have been identified as significant governance issues in view of their size, complexity and impact on the delivery of the Council's priorities:

SAP Financial Systems

95. Last year's Annual Governance Statement identified a significant governance issue with regard to the implementation of the SAP system to administer the Council's core financial systems. This represented a very significant transition for the processing of financial transactions, with the result that during the transitional period in 2009-10 there was an adverse

impact on system controls.

96. Since that time considerable work has been undertaken throughout 2010-11 in order to ensure that financial controls have been improved within SAP systems. In addition, further work has been undertaken and is in progress as follows, in order to ensure that the Council derives the maximum benefit from its implementation of SAP:

- The Council's external auditors, KPMG, undertook a post-implementation review of SAP, which was reported to the Overview and Scrutiny Organisation and Select Committee in November 2010, and the Audit Committee in December 2010. The report concluded that ultimately the Council had achieved a great deal in successfully implementing a major SAP system. Nevertheless, the report identified a series of recommendations aimed at improving the management of future major projects, and these are being taken forward as part of current proposals for the further development of SAP.
- In order to rationalise, improve and develop SAP further, and help meet corporate plans to improve efficiency and effectiveness, a programme of work is underway to address both short-term implementation developments in SAP, and longer-term development needs. The overall aims of this work are to improve users' experience of SAP, reduce duplication and maintenance of data, and deliver meaningful and timely management information to service managers.

Housing Landlord Service Improvement Plan

97. Following a poor Audit Commission report in May 2010 an improvement plan was developed that put in place over 100 actions, addressing all the recommendations arising from the inspection and reflecting local aspirations. Three quarters of the actions in the plan have been completed.

98. In May 2011 Cabinet agreed a new plan for improvement of the Council's Housing Landlord Service, addressing the remaining actions from the initial plan, but within a new context resulting from major changes in finance, regulation, tenancies and allocations, and new service standards developed by the Tenants Services Authority.

99. The new plan contains just over 40 key actions which ensure that focus is maintained on the areas of weakness.

100. Progress against the new plan will be monitored carefully.

Implementation of the Transformation Programme

101. In February 2011 the Council approved a comprehensive Business Plan, setting out how it intends to meet the significant challenges that the Council is facing over the next four years and deliver its vision to create stronger and more resilient communities. The Business Plan is ambitious and involves major transformational change to make the Council as efficient as possible and equipped for the future.
102. The Council is developing robust governance arrangements to underpin the delivery of the Business Plan and the effective management of the risks involved.

Managing Significant Reductions in Government Funding and Changes in Legislation

103. Following the General Election in May 2010 and the Coalition Government's Comprehensive Spending Review, the Council is required to absorb a reduction of 28.4% in grant funding from the Government over the next four years and respond to major changes in local government legislation. At the same time it must manage the increasing demand for services, for example, to protect vulnerable children and adults. The Council's Business Plan sets out how these challenges will be met, but the position needs to be closely monitored to ensure that the pressures arising from these changes, particularly in children and adult care services, are effectively managed.

Governance Arrangements for Dealing with Complaints Involving Third Parties

104. The Council is undertaking a review of its governance arrangements for dealing with complaints made to the Council about third party bodies with which it is involved. This follows a review of the Council's handling of a complaint regarding an equality and diversity issue in which two other organisations were involved.

Jane Scott
Leader of the Council

Andrew Kerr
Chief Executive

Wiltshire Council

Agenda Item 11

Audit Committee

29 June 2011

Proposed Draft Forward Work Programme for Audit Committee 2011 /12

Meeting Date and Time	Name of Report	Officer	Scope of Report
September	Annual Governance Statement	Ian Gibbons, Monitoring Officer	Final statement to be submitted to September meeting
September	Statement of Accounts	Michael Hudson, Interim Chief Finance Officer	Report
September	Report to those charged with governance	Darren Gilbert, KPMG	Report
September	Internal Audit Progress Report 2011-12	Michael Hudson, Interim Chief Finance Officer	Report
September	Risk Management Update	Eden Speller, Head Business Arrangements	Verbal update and report
December 2011	Internal Audit Progress Report 2011-12	Hd of Internal Audit	Report
December 2011	Annual Audit Letter	Darren Gilbert, KPMG	Report
March 2012	Certification of Grants and Returns 2010/11	Darren Gilbert, KPMG	Report
March 2012	Financial Statements Audit Plan 2011/12	Darren Gilbert, KPMG	Report
March 2012	Risk Management Update	Eden Speller, Head Business Arrangements	Verbal update and report
March 2012	Progress Report – Preparation of 2010 Financial Accounts	Matthew Tiller, Chief Accountant	Verbal update and report
March 2012	Internal Audit Progress Report 2011/12		Verbal update and report

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