



Internal Audit

Progress Report 2009-10

Audit Committee
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INTERNAL AUDIT PROGRESS REPORT

Introduction

1. This progress report presents members of the Committee with the following:
 - A brief overview of the actual position reached at 28 February 2010, in delivering the agreed Audit Plan for 2009-10, the first year of the combined Wiltshire Council Internal Audit team
 - Summaries of the outcomes of work completed during the period, together with an update on items brought forward.

Overall progress against the Audit Plan 2009-10

Productive Audit Days

2. We base our Audit Plan for the year on being able to achieve an estimated number of productive audit days throughout the year, and thereby deliver a range of planned audit work. Taken to the end of February 2010, our actual performance against the overall plan was as set out in the following table:

	No of Audit Days
Total Audit Plan for 2009-10	2,800
Weighted target productive days to 28 February 2010	2,520
Actual productive days to 28 February 2010	2,501

3. This shows that our actual productive days have very closely matched our target over the course of the year to date, and current resources should ensure we essentially achieve our final target productive days for the year as a whole.

Outcomes of Completed Work

Financial Systems

4. During this period we have carried out extensive work in reviewing and testing a wide range of key controls across the Council's main financial systems. In addition to our primary objective of providing assurance that controls are in place and working properly across these important financial functions, this work also provides evidence to the Council's external auditors, KPMG, for them to place reliance in support of their audit of the Council's financial statements.
5. On 1 April 2009, many of the Council's financial systems and procedures were transferred into the newly implemented SAP software, and therefore this year 2009-10 has been a period of transition and considerable change, where available finance staff resources have been stretched, as is often the case in these circumstances. For a good part of the year therefore, control processes have been under ongoing development, and gradual improvements have been implemented, particularly over the latter months of the financial year. Nevertheless, taken over the year as a whole, the financial control environment must be viewed as limited in comparison to what would be expected under normal circumstances.
6. The results of our work with regard to specific systems as set out below should therefore be seen in the above overall context. Where we have reported risks and scope for control improvements, these are recognised by management, and are being addressed within the work being undertaken by Central Finance and the Shared Services Team to strengthen financial processes and controls generally.
7. The outcomes for specific systems are set out in the following paragraphs.

Payroll

8. We found the key controls in relation to the payroll system to be good. This means that low risk issues, and a minimal number of medium risk issues, were identified. The medium risks arise in respect of the monthly reconciliation procedures, which in the early days of SAP posed significant problems. As a result of our audit we are confident that those early difficulties have very largely been resolved and that the remaining risks associated with the reconciliation processes will be suitably managed to ensure a lower risk is achieved by the year end.

Accounts Payable

9. Controls within the Accounts Payable system were found to be limited, and not functioning as they should, principally because the procedures put in place from 1st April 2009 were not being followed. To some extent this was outside the control of the Shared Services Team and was due to staff throughout the Council not using the SAP procurement module, SRM, when purchasing goods and services. As a consequence staff operating the Accounts Payable system have adapted the process to ensure invoices are paid on a timely basis, but in so doing they have undermined important controls.
10. Management has agreed the need to implement the originally agreed procedures and for all staff to use the systems that have been provided in the way that was intended.

Accounts Receivable

11. This was another area in which we found controls to be limited. The processes for setting up customers, raising invoices, and processing payments were generally found to be operating properly with no matters giving cause for concern. However, the major gap in the Accounts Receivable process was the lack of a Debt Management Policy, which, due to limited staff resources, is still being developed. There has therefore been only a limited follow up of overdue debts during the current financial year. If left unaddressed this may cause difficulty in establishing the true level of bad and doubtful debts. Management recognises this as an area of weakness, and work is now underway to strengthen debt recovery processes.

Cash, Investments and Borrowing

12. The control and monitoring of the Cash, Investment and Borrowing processes have developed over the course of the year, and improvements have been achieved in recent months, with the implementation of regular reconciliations. Work must now continue to ensure these become fully embedded in normal routines, and a process of verification introduced to ensure reconciliations are regularly carried out and actioned as necessary.

Financial Reporting

13. This audit comprised a review of procedures in place for revenue budget monitoring, suspense and holding accounts, and journals. Overall, we found the control processes in place to be limited taken over the year as a whole. This has been brought about by a range of issues which have arisen following the implementation of SAP, including the following:
 - a lack of defined reports available
 - opening balances not being loaded

- difficulties in forecasting due to some budgets being allocated to incorrect general ledger codes
- inadequate authorisation and review of journals
- lack of process notes.

14. Management are aware of these issues and are taking appropriate action to bring about the necessary improvements.

National Non-Domestic Rates

15. After the Council Tax, National Non Domestic Rates (NNDR) represents the Council's main revenue billing and collection function, involving almost 14,000 rating assessments which are estimated to generate over £120m income for 2009-10. Our audit of this major revenues function was focussed on the following areas:

- All chargeable hereditaments identified, assessed and correctly entered into the NNDR records
- Reliefs and discounts properly verified and authorised
- Amounts due correctly calculated and promptly demanded
- Secure and efficient arrangements for all collections, postings to the correct NNDR accounts, and refunds valid and authorised;
- Prompt and effective arrears recovery action, with write-offs valid, authorised and reported appropriately
- Progress to harmonise processes and procedures.

16. In general, we found controls over the administration and management of NNDR to be operating adequately. However, the function is still operating as four distinct hubs, with their own independently operating systems, which have not been transferred onto a common domain. The lack of connectivity in terms of IT systems severely hampers the ability of the hub teams to follow common procedures and processes, and to share any information about their property bases. Therefore, until a common IT solution is implemented, inherent inefficiencies will remain in some processes.

17. In addition, however, this year our testing and enquiries have found a number of key control weaknesses, which have led us to conclude that controls are limited overall. Our main concern was the inability to demonstrate the reconciliation of the total opening 2009/10 debit to independent Valuation Office (VO) records. Other control weaknesses identified were:-

- Lack of prompt reconciliation of the NNDR databases to VO schedules

- Inadequate monitoring of void and empty properties
- Ineffective monitoring and control of credit balances
- Lack of proper administration and authorisation of write-offs.

18. These problems have been recognised by management, and actions are now being taken to secure the necessary improvements in the near future.

Housing Services

West Wiltshire Housing PFI Project

19. This scheme was set up to provide affordable housing across a number of sites in West Wiltshire, through a PFI agreement with a private sector partner. Our interim findings, reported to the September meeting of the Audit Committee, identified a number of business critical risks for management consideration and mitigating action.

20. Since then we have maintained our interest in the progress of this project, and have regularly attended PFI Project Board meetings to advise Board members on risk and audit issues. Our latest report to the Board confirms our view that the control environment for the project remains limited with a number of risks and external influences still current. In the main, management have taken, or will be taking, steps to mitigate these risks as far as possible.

21. Progress on the project has been delayed due to, amongst other things, ongoing commercial negotiations, and a number of land title issues have been identified which are seen as having an increased level of risk within the PFI contractual framework. Financial close on the project has therefore been put back, with a revised target date for completion of the end of May 2010.

22. The delays have resulted in additional costs to the Council from legal, financial, technical and other specialist consultancy fees. A revised budget has been agreed to meet the expected increase in project costs.

Private Sector Housing Services

23. This work involved an audit of the Disabilities Grants Scheme as a result of concerns raised by management. This is an area with complex relationships as the Home Improvement Agency (HIA) acts as an agent between the Council, the client and the contractor who we pay on their behalf. The current fee agreement with Anchor Staying Put, as is common for most HIA's, is based on a percentage mark up made in relation to the cost of the work charged by the contractor.

24. The HIA is required to maintain set procedures for inviting approved contractors to tender, which are inclusive in nature meaning that they do not exclude approved contractors from tendering even if they are less competitive. We examined a number of cases involving the installation of level access showers.
25. We found the control environment in relation to this activity to be limited. Weaknesses were apparent in the audit trail between the Council and the HIA, and management by the HIA of the contractors and their costs was very poor, making it highly unlikely that value for money was being achieved.
26. The main risks identified and agreed with management were as follows:
- A lack of budget monitoring against the Council's accounting system, since incorrect data was being used to monitor costs against budget
 - No reconciliation between invoices and payments by any of the hubs, which could lead to inappropriate and excessive expenditure for grant funding.
 - Copies of contractors' invoices for work authorised must be associated to payments made by the Council on behalf of the disabled client so as to eliminate the risks of the council paying invoices that do not relate to work actually undertaken by the contractors, and of contractors being paid twice.
 - A lack of management control within the HIA over the tendering process and the granting of contracts risks expensive quotes being submitted and high fees being paid to the HIA.
27. Management action has now been taken or is currently underway to implement the control improvements needed in these areas.

Leisure Centres

28. Wiltshire has a total of 23 publicly-funded leisure centres, the day to day management of which varies between in-house, voluntary organisations, and an outside service provider (DC Leisure). Whilst overall responsibility rests with the Leisure Services section, the Council's Property Services team also has responsibility for the management and monitoring of property and buildings issues.
29. Our audit review was focussed upon the in-house leisure centres, and those operated by DC leisure. Areas covered included operating procedures, sales and income, health and safety, and staffing. We also incorporated a review of DC Leisure's records, and an overall understanding of their control procedures. We visited a number of centres during the course of our work.

30. We found that individually, the leisure centres are generally well run. There are good operational controls in place and disruption to customers during the transition to Wiltshire Council has been kept to a minimum.
31. Some of the risks identified were due to inconsistencies in practices between the various leisure centres, the main risks being:
- In some cases contractors carrying out asbestos checks were not fulfilling their contract by failing to test rooms which were locked
 - Contractors' reports were not always reviewed by Centre Managers, leaving them unaware that full checks had not always been carried out
 - At one centre an insufficient number of people were trained in first aid, posing a potential risk to public safety
 - A discrepancy exists between the policies of DC Leisure and Wiltshire Council regarding when new employees are cleared to start work, risking inadequate clearance in some cases.
32. Actions to address these risks and improve controls have been agreed with management. In some cases this involves the need for effective liaison between Property Services and Leisure Services.

Highways

33. We have reviewed the security and other aspects of the Exor IT application used for managing highways maintenance. This application adequately supports the highways maintenance operation in areas such as work allocation, job control, job budgetary control and (via SAP) payments to Contractors. Although the system has been in use for many years, this is the first IT audit based specifically around it.
34. Exor has greater functionality than is being used at present, and additional modules are available if necessary. The majority of weaknesses and risks lie in the implementation and administration of the system, largely due to unilateral decision making, a lack of authorisation, supervision and checking processes, and non-segregation of duties. Specific risks identified include:
- Poor user account management and password control at both User and System Administrator level, and an inadequate audit trail, resulting in the risk of unauthorised and untraceable system and data changes. Management will pursue some of the areas highlighted, such as enforced periodic password changes, with the software supplier with a view to implementing them.

- Management will also work with HR to ensure that staff changes in their system are reflected in the Exor system, so that dormant accounts are deleted and staff who change jobs lose access permissions they no longer need.
- Sharing of user accounts and passwords, leading to a lack of accountability, traceability and transparency and the possibility of fraud. Management are working with the Wiltshire Applications Team and IT Security to reinforce the communication of the Council's policies on password security
- Inadequate segregation of duties, particularly in relation to payment approvals and the ability to override budget constraints. This could potentially lead to unauthorised or fraudulent transactions. Management have stated they will separate the various functions to address this issue, and will also thoroughly document roles and permissions and the associated staff allocations, to ensure staff have the access they need but no more.

Schools

35. Our programme of reviewing schools against the Financial Management in Schools has continued. Assessments completed since the introduction of the scheme have confirmed that 28 secondary, 166 primary and five special schools are meeting the Standard. Six schools have been assessed as needing to make improvements to meet the Standard, the main reasons for which were as follows:

- weaknesses in the understanding of staff and governors regarding their financial management responsibilities, due to factors such as lack of induction for new governors and training and development of staff
- school governance arrangements inhibiting fulfilment of such responsibilities and accountabilities, and minutes of meetings not providing clear evidence of this
- Schemes of Delegation not clearly defined or regularly reviewed
- financial procedures poorly documented, not up to date or approved
- Statements on Internal Control not supported by an evidenced review process and not approved
- School Development Plans not costed and linked to budget plans
- school procurement arrangements failing to demonstrate value for money

- weaknesses in the operation of main financial systems such as income, purchasing, and asset control.
36. The remaining schools will be assessed as part of our continuing programme, in order to meet the Department of Schools, Children and Families requirements. In addition, schools have to be re-assessed every three years, and the re-assessment process begins from 1st April 2010. Internal Audit will continue to be the recommended external assessors.

Procurement

37. The ProContract system is a stand alone procurement tool to enable the Council to approach the market for quotations. The system has been selected by the Corporate Procurement Unit (CPU) to meet the requirements of the new Contract and Procurement Regulations issued in April 2009, whereby at least five quotes from suitable suppliers are required for procurement estimated to be between £5,000 and £100,000. Our work involved undertaking a joint review with representatives from the Corporate Procurement Unit and procurement practitioners of the new system during attendance at pre-implementation training.
38. Overall we found the methodology adopted in implementing the system to have been sound. The new system offers an opportunity to improve upon existing disparate approaches to procurement across the Council and, most importantly, to improve transparency and accountability in such undertakings.
39. We also recognised the efforts made by the CPU to involve procurement practitioners in process design, to ensure the system is appropriate to the Council's business needs, in promoting acceptance of the system as a recognised mandatory corporate tool.
40. The main risk identified was the potential failure to ensure an extensive market is available to the Council, owing to lack of sufficient registration of suppliers. Management recognises this risk and is taking steps to promote awareness and encourage suppliers to register.

Anti Fraud and Corruption

41. We have undertaken proactive work aimed at strengthening the Council's overall arrangements to prevent fraud and corruption. Initially, using the latest best practice guidance from CIPFA, we carried out a comprehensive assessment of the Council's counter fraud arrangements. Following this, we concluded that the Anti Fraud Policy, inherited from the former County Council, should be revised and that fraud awareness should be raised throughout the Council.

42. We accordingly prepared a new Anti Fraud and Corruption Policy which was approved by Cabinet in January 2010 and which is now available on the Council's internal and external websites. Staff and Members were informed through the 'Electric Wire' and 'Elected Wire'.
43. In order to build upon this, we acquired a web-based fraud awareness training course, which we customised for the Council and made available to all staff and members in March. This contains a message of endorsement from the Chief Executive.
44. We also developed a fraud awareness web page for the Wire which was announced in the March 'Team Wire' and reinforced through 'Electric Wire' and 'Elected Wire'. The web-page contains a variety of fraud-related information, including a link to the fraud awareness course and a joint message from the Chief Finance Officer and Cabinet Member for Finance, Performance and Risk.
45. Furthermore, in order to ensure compliance with current legislation and best practice, the Council should have an Anti Money Laundering Policy and make all staff aware of its implications. We have prepared such a policy which is scheduled for Cabinet approval in March. We have also developed complementary Anti Money Laundering Procedures which will be launched through the Wire and available on the Intranet, in order to achieve the necessary level of awareness amongst staff.
46. In addition to these proactive measures, we have also been called upon to undertake investigatory work in relation to specific concerns brought to our attention, some of which have required referral to the Police. The circumstances involved have included:
- Potentially fraudulent alterations to cheque payments
 - Payment of a false invoice
 - Possible misuse of a Council purchasing card.

Items Brought Forward

Joint Area Review

47. At the last meeting of the Audit Committee we reported that the JAR for Wiltshire took place during the Summer of 2008. We have since reviewed the resulting Action Plan and can confirm that the 6 key areas identified below have all been addressed in the Plan:
- Looked After Children
 - Children with Learning Difficulties and/or Disabilities
 - Children that require safeguarding

- Young people not in employment, education or training
- Teenage pregnancy
- Service management.

48. We also reported that some aspects within the Plan are not scheduled for completion until 2010-11, therefore we will carry out a further review as part of our follow up work, in particular focusing on those areas where there may be concerns about progress.

ContactPoint

49. We have been working with the ContactPoint Team responsible for the systems and processes required for accessing this national database. From this work, and from discussions with colleagues in other local authorities, it was apparent that further guidance and clarification was required from Central Government on what is required of local authorities.

50. There has been very limited uptake of ContactPoint accreditation by partner organisations to date, to the extent that only now are there becoming sufficient accreditations to make an informed assessment practicable (as of January 2010, only one prospective partner had come forward to request accreditation). Accreditation involves compliance with over twenty IT-related controls, many of which are phrased in technical terminology. We have therefore worked with colleagues in IT Security to develop a more user-friendly translation of this terminology, to assist applicants in understanding what is required to achieve compliance and accreditation.

51. Terms of reference for our audit work have now been agreed, and the field work and reporting will be completed during April 2010.
