

Report to: Audit Committee  
Date of Meeting: 9<sup>th</sup> January 2007  
Report of: Audit Manager  
Title: Internal Audit – Progress Report to December 2006

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1. **SUMMARY**

This report and appendices provide information on the work undertaken by Internal Audit during the period August to mid- December 2006 and gives an update on benefit fraud related issues.

2. **RECOMMENDATIONS**

2.1 The contents of the report be noted.

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Report approved by Janice Maule – Director of Finance

### **3.0 DETAILED PROPOSAL**

- 3.1 The new Senior Auditor joined the Council on 4<sup>th</sup> December. In order to cover for the period the position was vacant an order for five audits was placed with an external supplier. These were in addition to two IT application audits which, as in previous years, it has been necessary to buy in because of their specialist nature. See Appendix 1 for details. It is anticipated that the targeted 90% completion of the audit plan will be achieved by year end.
- 3.2 CIPFA's new *Code of Practice for Internal Audit in Local Government in the UK* was published in December. The original Code was issued in 2003 in response to the Accounts and Audit Regulations (2003). The revised version reflects changes arising from the 2006 amendments to the Regulations and also responds to the impact developments in risk management have had on the internal audit planning process. Internal Audit in Watford seeks to operate in accordance with the requirements of the Code and is now reviewing current arrangements in response to the Code. The outcome of this review will be reported to a future meeting.
- 3.3 Regular contact with Heads of Services/systems administrators has been maintained throughout the period to ensure that procedure notes for all key systems would be completed by the end of December. A considerable amount of effort has been put into this and the vast majority have now been completed or updated. This is one of the criteria used in the Use of Resources assessment to measure performance and the Audit Commission appeared satisfied with progress at the initial assessment meeting in November.
- 3.4 Another end of December target was the production of flowcharts for key systems by Internal Audit. There is only one now outstanding and that will be completed in January.
- 3.5 It was reported to the September meeting that the Audit Manager was temporarily managing the Investigations and Overpayments Team (Housing Benefit fraud). Since then the Audit Manager has assumed permanent responsibility for managing the fraud investigation element of the team with the Visiting Officers and the overpayment recovery officer transferring to other sections within Revenues and Benefits. There is a close affinity between the benefit fraud work of the investigators and fraud investigation traditionally undertaken by Internal Audit and there have been examples of collaborative working in the past. Bringing the two elements of fraud work together under a single manager is a logical step and it is proposed to eventually take this further by widening the remit of the fraud investigators to cover all fraud work through the formation of a corporate anti-fraud team. The Audit Manager will maintain sufficient distance from day to day operations to ensure continued independence from the function.
- 3.6 It was also reported in September that the Benefit Fraud Inspectorate (BFI) would be visiting the council. The BFI have now completed their review of "security" arrangements, checking procedures in place for the prevention and detection of benefit fraud from the

initial assessment of a claimant's entitlement to benefit through to the actual investigation of fraud cases. The emphasis of the review was on the work of the Investigation and Overpayments Team. Their final report will be published early in the new year and that report and our action plan to comply with its recommendations will be brought to the next meeting of this Committee.

#### **4. IMPLICATIONS**

##### 4.1 Financial

The Head of Finance reports that the need to provide external cover for the vacant Senior Auditor post could result in an overspend on the Internal Audit salaries budget. The extent of this cannot be foreseen at the moment but it is anticipated that it can be managed from within the existing Finance budget.

##### 4.2 Legal Issues (Monitoring Officer)

The Head of Legal and Democratic Services reports that there are no specific legal issues in the report. The Council has a responsibility to ensure that it has proper arrangements for the management of the internal control environment; this includes an appropriate internal audit presence.

##### 4.3 Staffing

There are no implications in this report.

##### 4.4 Accommodation

There are no implications in this report.

##### 4.5 Equal Opportunities

There are no implications in this report.

##### 4.6 Community Safety

There are no implications in this report.

##### 4.7 Sustainability

There are no implications in this report.

##### 4.8 Potential Risks

Failure to work to the recommended standards or to complete the audit work programme would affect the Audit Manager's ability to provide adequate year-end assurance of the effectiveness of the internal control environment and could result in criticism from the

external auditors. Measures have been taken to ensure that the key elements of the work plan can be completed by employing additional resource to compensate for the vacancy at Senior Auditor level.

Background papers:

The following background papers were used in the preparation of this report:

Audit Files

If you wish to inspect or take copies of background papers please contact the officer named on the front page of the report.

File reference: None

**Work Progress on Individual Audits  
2006/2007**

<b>Project</b>	<b>Progress as at 15<sup>th</sup> December 2006</b>	<b>Days Allocated 2006/07</b>	<b>Days Taken 2006/07</b>
<b>Audits Brought forward – 2005/2006</b>			
NNDR	Final report 14 06 06	-	3
Budgetary Control	Final report 13 06 06	-	3
Payroll – continued in 2006/07	-	-	-
CSC – Cash Handling	Final report 30 06 06	-	0.5
CSC – IT Security	Final report 13 09 06	-	1.5
Bank Reconciliations	Final report 12 06 06	-	8.5
<b>2006/2007 Audits</b>			
Performance Indicators – review of 2005/2006 KPIs	Final report 04 07 06	25	28
Repairs Service a) use of materials. b) job control. More work to follow.	a) Final report 25 07 06 b) memo 25 07 06	30	7.5
Payroll – system review, flowcharting and testing of key controls. (Continuation from 2005/06).	Final report 09 1 06	25	30
Radius (Income) – system review, flowcharting and testing of key controls.	Final report 07 09 06	25	20.25
Loss of decoration vouchers.	Final report 13 07 06	Contingency item	15
Benefit Subsidy Claim – following up issues previously raised by Audit Commission and Internal Audit and testing elements of the claim.	Final report 07 11 06	12	27.25
Sundry Debtors – system review, flowcharting and testing of key controls.	Final report 14 12 06	20	22
Benefits Administration – work as above.	Final draft report 30 11 06	30	30.5
Council Tax – as above (order placed with Tribal – Business Assurance Division)	Work to draft report stage	15	15
Creditors – as above – order with Tribal.	Final draft report 15 12 06	15	15
Housing Rent Collection – system review, flowcharting and key control testing.	Work in progress	20	15.5
Aptos – system flowcharting and review of feeder system reconciliations.	Draft report 13 12 06	10	7.5
IT Procurement	Work in progress	10	0.5

IT Standards	Not started	15	-
IT application audit – Council Tax (Order placed with Tribal)	Not started	7	-
IT application audit – Radius (order placed with Tribal)	Not started	7	-
Support Service Recharges (order placed with Tribal)	Not started	6	-
Trade Waste (order placed with Tribal)	Not started	8	-
Combined Procurement/Contract review (order placed with Tribal)	Not started	15	-
Recruitment process – review to ensure robust procedures in place.	Not started	5	-
NNDR – system review, flowcharting and key control testing.	Not started	15	-
Parking Control – procedure review (at request of the Parking Services Manager)	Work in progress	5	2
Bank Reconciliations – review timeliness and accuracy	Not started	4	-
Website – review of security (order placed with Bentley Jennison).	Not started	4	-

## LOCAL PERFORMANCE MEASURES 2006/2007

Criteria	Target p.a. (as per Audit Plan)	To 30 <sup>th</sup> September 2006	Comment
% of annual audit plan achieved. Based on number of audits.	90%	-	Best measured on an annual basis. (Actual 2005/06 – 91.3%). Progress throughout the year is continually monitored by the Audit Manager.
Sickness – days per FTE	7.5	0.5	(Actual 7.5 days for 2005/06)
Training – days per FTE	6.25	1.25	Time includes for internal and external seminars/training. One auditor is studying for Institute of Internal Auditors - time recorded here excludes distance learning. (Actual 2005/06 - 3.13)

Criteria	Target p.a.	Actual To 30 <sup>th</sup> September 2006	Comment
Final audit reports issued within 10 available working days of agreement to draft	100%	100%	Based on 7 reports issued. (Actual 2005/06 – 100%)
Level of customer satisfaction	85%	94.2%	Based on 5 questionnaires returned since 1 <sup>st</sup> April. (Actual 2005/06 - 94.07%).

## **Audits Undertaken**

The following notes relate to audits completed during the period where service management has been given the opportunity to review and agree recommendations and to comment on them in the final audit report or where issues felt to be significant are currently under review. The following issues are drawn to Committee's attention.

### **1 Benefits Subsidy Claim**

This audit concentrated on procedures in place in Finance and Revenues and Benefits for the completion of the 2005/2006 subsidy claim. The audit of the claim itself is the responsibility of the Audit Commission and the Internal Audit review also covered measures taken to address concerns raised by the Audit Commission when they completed their audit of the 2004/2005 claim. Detailed testing was also carried out, both to substantiate our own conclusions and to reduce the time spent (and therefore cost) in auditing the claim by the Audit Commission.

Some of the recommendations made as a result of this audit had been outstanding since our last audit and issues again being raised by the Audit Commission had previously been reported by them.

In summary, the key issues raised in our November 2006 report centred around the need for better quality assurance from initial assessment of claims for benefit to preparation of the claim itself and included:

- Procedure notes documenting how the claim should be prepared are needed. These would ensure consistency between years, contribute to the quality assurance process and help raise the confidence of external auditors in the accuracy of the claim
- A formal process for completing all stages of the claim and regular liaison meetings between the services should be set up.
- "Local Authority Error Overpayments" should be closely monitored and remedial action taken to ensure they do not reach the levels experienced during the year (the Council does not receive subsidy on this class of error)
- A system for recording "uncashed cheques" in accordance with the definition set out in Audit Commission guidance is required.



- An analysis of significant variations between figures recorded in the current claim and those recorded in the same cells in the previous year's claim is required to identify potential errors prior to the Audit Commission's testing of the claim itself.
- Supporting evidence for the claim should be double checked to similar evidence produced for other returns to ensure consistency.
- More rigorous reconciliations are required for various elements making up the claim.

The importance of remedying these weaknesses is demonstrated by the fact that the Audit Commission's Qualifying Letter to the DWP on the 2005/06 subsidy claim could, as a "worst case scenario" result in a substantial reduction in the claim. Past experience indicates that this is an unlikely outcome and there are sufficient balances in reserve should the worst happen.

## **2 Benefits Administration**

The report for this audit has not been finalised but Committee's attention is drawn to emerging issues, some of which had a direct bearing on the completion of the subsidy claim:

- Consistency in definition is required when applying benefit regulations e.g. in the uprating of savings credits.
- More effective checking is required to ensure that errors in assessment are corrected. Speed of processing to clear the backlog of change of circumstances cases during 2005/06 was probably achieved at the detriment of accurate processing.
- Greater consistency in recording information on case files is required
- Procedure notes need to be reviewed and updated
- The reasons for allowing backdating of benefits need to be reviewed to ensure they reflect the Audit Commission's interpretation of "good cause".
- The classification of errors (local authority or claimant) leading to overpayments needs to be reviewed to ensure the correct classification is being applied.

## **3 Aptos**

The majority of reconciliations between feeder systems and Aptos continue to be maintained accurately and in a timely manner although the ongoing issue of reconciliation of rent allowances, rent rebates and council tax benefits from Civica to Aptos remains outstanding.

The main finding emerging from this audit is the apparent understating of the debtors figure for overpayment of benefits (and therefore the provision for bad debts also) in the 2005/06 final accounts. This amounts to £158,000. The full implications of this were being explored at the time of preparation of this report.