

Report to: Audit Committee
Date of meeting: 9th January 2008
Report of: Audit Manager
Title: Internal Audit Progress Report

1.0 **SUMMARY**

This report and appendices provide information on the work undertaken by Internal Audit for the period 1st September to 30th November 2007.

2.0 **RECOMMENDATIONS**

2.1 The contents of the report be noted.

Contact Officer:

For further information on this report please contact: Barry Austin – Audit Manager
telephone extension 8032 email: barry.austin@watford.gov.uk

Report approved by: Janice Maule – Director of Finance.

3.0 **DETAILED PROPOSAL**

3.1 This report covers the work undertaken by Internal Audit during the three months ended 30th November 2007. Details are set out in the appendices:

- 1) The latest position on individual audits as at 30th November including cumulative time taken for the year compared to the time allocated in the annual audit plan.
- 2) Local performance measures for the second quarter (to enable comparison with the same period in previous years).
- 3) Main issues arising from work undertaken.

3.2 Payment Card Standards. The payment card industry has issued a set of standards for enhancing payment account data security with a deadline for implementation of 30th June 2007. We have been advised that should external inspectors decide that an organisation has failed to meet these standards and cannot satisfy them that steps are being taken to remedy any weaknesses then potentially the banks could withdraw the service, or impose a fine or withdraw the fraud protection guarantee. An audit of this area is under way and initial findings indicate that there are weaknesses. Measures to address them are under discussion/being implemented. For example, an order for an upgrade to the Radius Icon software to incorporate "3D secure" (an additional layer of control to protect Internet payments, initially for users of Maestro cards) is shortly to be raised.

3.3 Payroll. A new interim payroll manager has been appointed in addition to the external advisor who had already been called to carry out an assessment of the service. A joint meeting is to be held to review progress in implementing audit recommendations outstanding from previous audit reports.

3.4 Secure Data Transmission. Following the apparent loss of two discs containing personal data by HMRC, a joint exercise involving Internal Audit and BIS has been carried out to assess potential problem areas in the transmission of personal/sensitive data by the Council. The various means of transmission across the Council have been determined (disc, email, post etc) and interim arrangements set up to cover the two most common methods i.e. email and disc. The use of software to deal with email communications on a more permanent basis is being explored and instructions on how to deal with the other means of transmission are to be issued. There have been no reports of lost data affecting

the Council.

- 3.5 The Audit Manager has been working with the Head of BIS, the Head of Legal and Democratic Services and other service representatives to finalise a new Information Security Policy. The initial version was drawn up by an external consultant and the officers have been refining it to suit procedures in Watford. The final version is expected to be presented to CMB shortly. It will then be publicised across the Council with a simplified guidance leaflet.

4.0 **IMPLICATIONS**

4.1 **Financial**

- 4.1.1 The Head of Finance comments that there are no financial implications in this report.

4.2 **Legal Issues** (Monitoring Officer)

- 4.2.1 The Head of Legal and Democratic Services comments that there are no legal issues in the report. The Council has a responsibility to ensure that it maintains an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control.

4.3 **Potential Risks**

- 4.3.1 Failure to complete the audit work programme would affect the Audit Manager's ability to provide a year-end assurance of the overall adequacy and effectiveness of the control environment.

Background Papers

The following background papers were used in the preparation of this report. If you wish to inspect or take copies of the background papers, please contact the officer named on the front page of the report.

Audit Files

File Reference

None.

Appendix 1

Work Progress on Individual Audits 2007/2008

Project	Progress as at 30 th November 2007	Days Allocated 2007/08	Days Taken 2007/08
Audits Brought forward – 2006/2007			
Payroll CHAPS	Final report 16 10 07	-	2
Support Services Recharges	Final report 26 09 07	-	-
Asset Management	Final report 20 04 07	-	6
Budget Monitoring	Final report 20 06 07	-	1
2006/07 audits		-	9
2007/2008 Audits			
2006/07 Performance Indicators – review calculation of 2006/07 indicators.	Final report 11 06 07	30	32
Housing Strategy Statistical Appendix – review accuracy of return.	Final report 24 08 07		
Westfield Leisure Centre – restricted audit – income and expenditure controls	Completed 11 06 07	8	5.75
Colosseum – review income and expenditure controls.	Final report 21 06 07	5	5
Bill Everett Centre – review income and expenditure controls.	Final report 18 09 07	9	6.5
Recovery of Overpaid Benefits – review of system controls.	Final report 17 09 07	5	6.5
Software Licensing – check on software legality.	Final report 12 11 07	10	7.75
Housing Repairs Service – follow up audit	Final report 30 07 07	5	7
Building Control – review income controls.	Final report 05 11 07	8	5.75
Staff Car Parking Fees – review new system controls.	Final report 18 10 07	5	3.75
HB Subsidy Claim – review accuracy of claim.	Draft report 09 11 07	26	31
Environmental Grants – review follow up procedures.	Final report 21 09 07	3	2.25
Cashiering Function – review system controls.	Final report 22 10 07	5	3.25
Charter Place Market – review income controls.	Final report 12 11 07	5	2.75

Housing Stock Transfer – process over-view.	Work in progress	20	5
Housing Rents – follow up audit.	Final report 06 09 07	7	5.25
Payment Card Industry Security – comparison with new industry security standards.	To draft report stage	6	4.5
Recruitment - follow up audit	Final report 12 11 07	2	2.5
Sundry Debtors – review of system controls	To draft report stage	15	14.5
Risk Management – review implementation of risk management.	Final report 14 11 07	15	15
Creditors – review of system controls	Not started	15	17.5
Benefits Administration – review of system controls	Work in progress	30	28
Corporate Governance – comparison with new standards	Work in progress	15	0.5
Bank Reconciliations	Not started	5	-
Council Tax – review of system controls	Work in progress	15	8.5
NDR – review of system controls	Work in progress	15	0.5
Budget Monitoring – review of effectiveness	Work in progress	10	5.5
Contract Monitoring – review of controls in Environmental Services over selected contracts	Work in progress	15	7.5
Parking Control – income controls	Work in progress	8	6
Radius – review of income system controls	Work in progress	15	8

LOCAL PERFORMANCE MEASURES 2007/2008

Criteria	Target p.a. (as per Audit Plan)	To 30th November 2007	Comment
% of annual audit plan achieved. Based on number of audits.	90%	-	Best measured on an annual basis. (Actual 2006/07 – 89.1%). Progress throughout the year is continually monitored by the Audit Manager.
Sickness – average	4	2.67	(Actual 2.3 days for 2006/07)
Training – average	6.25	1.86	Time includes for internal and external seminars/training. One auditor is studying for Institute of Internal Auditors. (Actual 2006/7 – 6.4)

Criteria	Target p.a.	Actual To 30th November 2007	Comment
Final audit reports issued within 10 available working days of agreement to draft report.	100%	100%	Based on 15 reports issued. (Actual 2006/07 – 72.22%)
Level of customer satisfaction	90%	95.10%	Based on 7 questionnaires returned since 1 st April. (Actual 2006/07 – 93.94 %).

A Completed Audits

The following notes relate to audits completed during the period where service management has been given the opportunity to agree the content of the report and its recommendations.

1 Bill Everett Centre

No control weaknesses were identified. It was noted that there had been a substantial increase in income arising from the refurbished facilities.

2 Software Licensing

An audit has been undertaken to ensure that the Council holds current software licenses for all purchased software and that it is compliant with the conditions of those licenses. Only limited assurance could be given in respect of the controls in place as, for example, there was no up to date inventory of software licenses and there was a lack of control when installing software to ensure that the number of users did not exceed the licensed number. These weaknesses could potentially lead to financial penalties should an external inspector so decide. The issues raised in the report are being addressed and the introduction of the “thin client” infrastructure should overcome these problems.

B Emerging Issues

Ongoing work.

1 Housing Benefit Subsidy Claim 2006/07 and Housing Benefit Administration audits

The annual review of the subsidy claim is aimed at assisting the Audit Commission with their review and at identifying any improvements the Council could make to improve its procedures.

It was noted that there continues to be an over-reliance on one individual in Revenues and Benefits for completing and testing the claim and that, following the transfer of an accountant to the WCHT, arrangements for a transfer of support responsibilities to another post in Finance need to be finalised. The latter point is

highlighted as little progress was made during 2006/07 in improving the processes for reconciling the Civica Benefits system with Aptos, in particular reconciling the figures on the claim to Aptos. At the end of this audit there was an un-reconciled difference of £38,583. This issue has been raised by Internal Audit and the Audit Commission for the last two years.

A significant level of error in classification of overpayments (local authority or claimant error) was identified. Improved procedures were introduced in Benefits with effect from 1 April 2007 and the latest Benefit Administration audit has confirmed improvements in accuracy and adherence to regulations as a result.

The introduction of document image processing has had teething problems as the quality of images for those documents scanned off-site by the supplier was not satisfactory and the detailed testing for both the Subsidy Claim and the Administration audits was affected because a number of files were not available at the time of the audits (in transit between WBC and supplier or with supplier). Both issues have also had a detrimental affect on the work of the Fraud Investigation Team. The Revenues and Benefits Service has now gone live in scanning the documents itself. It is to be hoped that once the initial scanning/rescanning and indexing exercise has been completed that all files will be accounted for and the problems currently being experienced will be dealt with.

As the Administration audit is still progressing, any other issues which may arise will be reported verbally to Committee.