PART A   AGENDA

ITEM 4

Report to: Audit Committee

Date of   14th January 2009
meeting:

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 2008 to 30th November 2008.

2.0   **RECOMMENDATIONS**

2.1   The contents of the report be noted.
2.2   The proposed change to the annual audit plan for 2008/2009 be approved.

Contact Officer:

For further information on this report please contact: Barry Austin – Audit Manager
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Report approved by: Janice Maule – Director of Finance.

3.0 **DETAILS**

3.1 This report covers the work undertaken by Internal Audit during the three months ended 30th November 2008. 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 to the same date.

3) Main issues arising from work undertaken.

The following paragraphs cover other items which the Audit Manager feels should be drawn to the Committee's attention.

3.2 There are no matters arising from the audit work completed to date that are likely to have a significant adverse impact on the effectiveness of the Council's control environment.

3.3 Treasury Management. As a result of the recent financial turbulence, especially the problems for local authority investment brought about by the collapse of Icelandic banks, the Audit Manager has been involved in several discussions with the interim Head of Finance re the position of the Council's investments. Whilst Watford did not suffer any loss because of the Icelandic situation the safety of, and returns on, its investments have been under constant review. As the interim Head of Finance has already given a presentation on investments to the Budget Panel and is due to propose a change in the investment strategy to Cabinet in January, no audit as such has been undertaken. It is hoped that a copy of the Cabinet report will be available for presentation to this Committee.

3.4 Payroll. Members will be aware that overpayments to staff have been discovered over recent months. Many of these have been due to data input errors and a lack of understanding of the operation of the Payroll system relating to the period prior to the appointment of the current interim Payroll Manager. Unfortunately these errors are still coming to light and are being dealt with on an ad-hoc basis. When the current manager was appointed, he and a consultant implemented measures which addressed the concerns which had been expressed in audit reports and procedures are now far more robust e.g. double checking of input (as reported to the June meeting).

The exception to this are errors which have arisen because notifications that staff are leaving the council have arrived late, giving Payroll insufficient notice to adjust the pay run. All Heads of Services have been reminded of the need to advise Payroll in sufficient time to allow for the necessary adjustment to be made.

Arrangements are made to recover all overpayments as they arise.

The payroll service is to be outsourced and will be provided by Northgate from April 2009

3.5   Shared Services. The introduction of Shared Services presents a range of risks for Internal Audit to consider. Examples are outlined below for information:

Procedures will change and new computer systems will be introduced. As a result, Internal Audit is taking a pragmatic approach when making recommendations during current audits, balancing the risk of not implementing change in the short term against the improved controls/benefits which would arise as a result of change. In the longer term the approach is to raise awareness of the need to consider how these same recommendations need to be considered when the new systems/procedures are being introduced.

Procedure notes are currently in place for key Council systems. As systems change there will be a need to amend or rewrite these notes as a contribution to business continuity.

There is a need to ensure that new systems interface with the new financial management system, facilitating the flow of data and ensuring ease of reconciliations.

As systems merge in 2009/2010 the internal audit providers for Watford and Three Rivers will need to co-ordinate their work plans to avoid the risk of duplication of effort.

3.6   As Committee approved the original 2008/2009 annual work plan, approval is now sought for the deletion of one audit. The implementation of "thin client" has not been completed and so it will not be practical for the planned post implementation review to be carried out. It is proposed that this audit be deleted from this year's work plan and be considered for 2009/2010.

4.0   **IMPLICATIONS**

4.1   **Financial**

4.1.1   The Director of Finance comments that there are no direct financial implications in this report.

4.2   **Legal Issues** (Monitoring Officer)

4.2.1   The Head of Legal and Property 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

Potential Risk	Likelihood	Impact	Overall score
The most significant potential risk is the possibility that Internal Audit work is of poor quality and the service ineffective. This could lead to an increase in control weaknesses, in greater risks to the Council and to a loss of confidence by the external auditors in Internal Audit and the Council's control environment.	1	3	3

The external auditors commented in their report on the 2007/08 Accounts that they were able to place reliance on the work of internal audit in respect of the key accounting systems reviewed (Sept. 2008).

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.
Internal Audit Files

File Reference
None.

**Work Progress on Individual Audits
2008/2009**

Project	Progress as at 30th November 2008	Days Allocated 2008/09	Days Taken 2008/09
Audits Brought forward – 2007/2008			
Asset Management	Final report 04 06 08	-	12.5
Support Services Recharges	Final report 18 07 08	-	4
Accountancy Systems	Final report 31 07 08	-	6.25
Payroll	Final report 08 09 08	-	13.25
NNDR	Final report 02 07 08	-	1.5
Budget Monitoring	Final report 17 07 08	-	1.5
Total 2007/08 Audits		**-**	**39**
2008/2009 Audits			
Service Planning	Final report 17 10 08	15	15.75
Performance Indicators 2007/08	Final report 14 07 08	30	26.5
Fees and Charges	Final report 09 10 08	15	11.5
Bill Everett Centre	Final report 14 07 08	4	4.5
Fraud Awareness	Final report 30 06 08	6	6.5
Partnership Working	Final report 17 09 08	15	20
Procurement	Draft report stage	7	9
HSSA	Final report 03 07 08	5	4.75
Ethics	Final report 23 09 08	8	9.75
Post Implementation Review – Thin Client	Delayed pending project completion	10	1.75
Planning and Development - Projects	Final draft report stage	8	14.75
Benefit Subsidy Claim	Final report	15	16.5

	17 10 08		
WCHT – Service Level Agreements	Final report 17 11 08	8	9.5
Payroll - Establishment Review	Final draft report stage	5	4.5
Payroll – Recovery of Overpayments	Final report 26 11 08	5	5.5
Geographical Information System (GIS)	Final report 24 11 08	10	12.5
Cemeteries	Final report 27 10 08	8	9
Parking Control	Final draft report 18 11 08	8	9
National Fraud Initiative (NFI)	Work in progress	5	4.5
Treasury Management	Not started	6	-
Benefits Administration	Work in progress	30	1.5
Council Tax	Not started	15	-
Creditors	Work in progress	15	14
NNDR	Work in progress	10	9.75
Payroll	Work in progress	15	5.25
Aptos Reconciliations	Draft report stage	25	24
Sundry Debtors	Work in progress	15	12
Building Control	Work in progress	4	0.25
Leisure Facilities (i) construction costs (ii) monitoring operations	Not started	13	-

LOCAL PERFORMANCE MEASURES 2008/2009

Criteria	Target p.a. (as per Audit Plan)	To 30th November 2008	Comment
% of annual audit plan achieved. Based on number of audits.	90%	-	Best measured on an annual basis. (Actual 2007/08 – 87.7%). Progress throughout the year is regularly monitored by the Audit Manager.
Sickness – average	4	2.9	(Actual days for 2007/08 – 5)
Training – average	8.75	2.25	Time includes for internal and external seminars/training. All auditors now hold a relevant qualification. (Actual 2007/08 – 2.9).

Criteria	Target p.a.	Actual To 30th November 2008	Comment
Final audit reports issued within 10 available working days of agreement to draft report.	100%	100%	Based on 19 reports issued. (Actual 2007/08 – 100%)
Level of customer satisfaction	85%	95.5%	Based on 9 questionnaires returned since 1st April. (Actual 2007/08 – 94.2%).

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   Benefit Subsidy Claim.
The audit report drew senior managers' attention to potentially high risks arising from the introduction of shared services for Revenues and Benefits, especially in the first year of operation.
(i)   Both Watford and Three Rivers will continue to produce separate subsidy claims with the possibility that one manager will be responsible for both. There is a very tight timescale for producing the claim which would be particularly challenging for one person.
(ii)   Proposed changes to the computer system could mean that the claim would be produced on a system which is no longer operational when the claim is externally audited.
(iii)   Problems associated with the reconciliation of the amount of benefit actually paid (as recorded in Aptos) to that on the claim (as extracted from Civica) have been reported in the past. To help in overcoming this it was recommended that attention be paid to this reconciliation in the specification/implementation stage of the new system.

2   Establishment Audit.
The risk of erroneous or possibly fraudulent salary payments is increased by the fact that the establishment lists previously agreed by HR with individual Services have not been adequately maintained and, together with details of monthly pay runs, have not been communicated to Services. Consequently, independent controls over payments made have been diminished. Audit is not aware of any incorrect payments made as a result of this and measures have been agreed to improve the level of control.

B   Emerging Issues
Ongoing work.

1   Procurement
The Procurement Manager has arranged procurement savings across many areas of Council activity but it is felt that there is no robust mechanism in place to ensure that these are all accurately reflected in Service budgets and no formal monitoring takes place to verify that they actually materialise. These issues were under review at the time of writing this report.

2   Planning and Development – Project Control
The audit highlighted the need for a more robust application of procedures for controlling the costs and implementation of competing and changing priorities for street scene and transport related projects. These projects were generally ad-hoc in nature and dependent on revenue funding rather than planned capital or Section 106 funded schemes.

The recommendations made were aimed at ensuring that projects are prioritised, effectively managed, delivered on time and budget and do not place too many conflicting demands on staff time. To assist in this, greater use needs to be made of the Council's project management toolkit.

It is felt that the Managing Director's restructure, along with other proposals, should help address the control issues by providing a clearer designation of responsibilities for work which had previously fallen to one team to manage.