

**WATFORD BOROUGH COUNCIL**  
**INTERNAL AUDIT SERVICE**  
**ANNUAL REPORT 2008/2009**

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## **1      Introduction**

The Accounts and Audit (Amendment) (England) Regulations 2006 require the Council to maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with proper practices in relation to internal control.

This report summarises the work undertaken by Internal Audit in 2008/2009 to meet this requirement and includes my opinion on the overall adequacy and effectiveness of the control environment.

In accordance with past practice, the report also includes details of work undertaken by Internal Audit which has not previously been reported to the Audit Committee in one of my regular progress reports. This avoids the need for a separate progress report. The work in question relates to the period from 1<sup>st</sup> March 2009 to 31<sup>st</sup> March 2009 (see 5.1 below).

The work undertaken by Internal Audit and any assurance provided must not be seen as a substitute for management's responsibility for maintaining sound management practices, including robust controls.

The report is one of the key sources of assurance used in the production of the Annual Governance Statement.

## **2      Audit Opinion**

In my opinion Watford Borough Council's control environment operates effectively. Overall, internal controls are satisfactorily applied. The factors taken into account in forming this opinion are set out in sections 3, 4 and 5 below. This opinion also builds on the knowledge and understanding of service provision in Watford acquired over the years I have been in post and, in particular, the improvement in controls noted over this period.

It should be noted that whilst it is not possible to give absolute assurance of the effectiveness of the control environment I am able to provide reasonable assurance of the overall effectiveness of controls based on the work undertaken.

Almost inevitably, given the range and complexity of services provided and the level of support services, weaknesses have and will continue to be identified within individual systems. Many of the recommendations made to remedy these weaknesses related to improvements in existing controls, recommendations for alternative or additional controls or the adoption of measures of best practice.

Each internal audit report contains an audit opinion on the effectiveness of controls within the system/function/activity reviewed, highlighting any significant weaknesses which could affect the Council's control environment. The opinion provided in each report falls into one of the following categories:-

**Full Assurance** – sound controls that are consistently applied.

**Qualified Assurance** – a satisfactory report - basically sound controls but some inconsistent application puts some control objectives at risk.

**Limited Assurance** – unsatisfactory controls or their application puts some control objectives at risk.

**No Assurance** – fundamental failure of control.

These individual opinions feed into the overall opinion provided in this report.

### **3 Qualifications to Opinion**

Whilst I have reported concerns in respect of individual audits to the Audit Committee throughout the year, I do not feel that any of these constitute a qualification to my overall opinion that should be drawn to your attention.

### **4 Basis of Opinion**

#### **4.1 Work Undertaken**

The work undertaken by Internal Audit during the 2008/2009 financial year was set out in the approved Audit Plan. Just over 90% of the planned work has been completed, including all audits of the key systems, which is sufficient to enable me to provide a reasoned opinion. By the time all of the audits are completed 37 reports will have been issued (37 in 2007/08), an indication of the breadth of work undertaken.

Details of the audits undertaken and a note of the progress on each one are shown in Appendix 1.

#### **4.2 Audit Plan**

The 2008/09 Audit Plan was based on discussions with Heads of Services to identify their key concerns, on my knowledge of developments within the Council, on Internal Audit's own long-term risk assessment, on the requirements and results of external assessments and on a review of risk registers.

The draft plan was discussed with the Director of Finance and presented to the Managing Director and Corporate Directors before being finally approved by the Audit Committee, thus offering the opportunity for amendment in the event of any significant shortcoming.

The planning process should therefore ensure that all key systems and significant risks have been taken into account.

### **4.3 Audit Follow Up**

When an audit has been completed weaknesses/areas requiring improvement are discussed with senior management. This leads to an action plan being drawn up which shows agreed measures to be taken and timescales to be followed for the implementation of the audit recommendations.

All recommendations are followed up to ensure that action has been taken, or where not, that there is an acceptable reason. An improved follow up procedure was introduced during the year. All reports containing High or Medium priority recommendations are now followed up on a monthly basis with written confirmation that recommendations have been implemented sought from Heads of Services. Occasional follow up visits are carried out and all recommendations relating to key systems are routinely followed up during the next planned audit. Failure to implement recommendations is now reported to the relevant Corporate Director.

These arrangements should ensure that action is taken to remedy any issues identified during the year.

### **4.4 Other Factors**

- My observations arising from requests to Internal Audit for assistance, attendance at meetings, committee agendas and minutes etc
- Progress made in tackling those significant control issues raised in my last annual report and the three governance issues raised in the 2007/2008 Annual Governance Statement which I am able to comment on.
- Internal Audit has had sufficient resource to enable it to complete its work programme.
- The absence of material changes in the Council's objectives or activities in the year under review.
- The completion of Statements of Assurance by Heads of Services confirming that they have assessed risks facing their respective services and have implemented Internal Audit recommendations.
- There have been no limitations placed on the scope of work undertaken by Internal Audit, on its access to records and information or on the provision of explanations as necessary.

### **4.5 External Assurance**

I have also taken into account the outcome of work undertaken by the external auditors.

## **5      Review of Work Undertaken During the Year**

In my regular progress reports to the Audit Committee throughout the year I drew attention to significant control issues which had been identified. These reports covered work undertaken during the period April 2008 to February 2009. The following section outlines two further issues arising from audits undertaken during March 2009 which have not already been reported to the Audit Committee.

### **5.1    Work undertaken during March 2009**

#### **5.1.1   Creditor Payments**

It was found that goods and services were still being purchased without first raising an official order. There are compensatory controls in place which should ensure that purchases are not being made fraudulently. Nevertheless, the practice does affect the Council's ability to budget accurately as not all commitments are recorded. At the time of the audit instructions had just been issued to all Heads of Services to put a stop to the practice and additional measures are being considered.

#### **5.1.2   Financial Appraisal of Contractors/Suppliers**

When companies are being considered as potential contractors/suppliers to the council it is considered best practice to carry out a financial appraisal to ensure that they have the necessary resource and financial stability to complete the work. This is especially important in the current financial climate. The audit found that, whilst some appraisals were carried out, they were not uniformly applied and lacked the robustness necessary to provide the council with sufficient assurance of companies' viability. This could place the council at risk from both a financial and a public relations perspective.

#### **5.1.3   Risk Management**

Whilst risk management arrangements continue to improve there is still a lack of consistency between Services in the alignment of risks as recorded in service plans and risk registers. This is to be raised at a forthcoming meeting of the Leadership Team.

## **6      Annual Improvement in the Effectiveness of the Control Environment**

I have attempted to quantify improvements in the control environment by comparing the number of High and Medium priority recommendations made for key systems on a year by year basis. This is not an exact science as systems may change over time as may the objectives and parameters of individual audits. I have selected those audits which I feel may best be compared with previous years.

The details are shown in Appendix 4 (table 1). Over the preceding two years there had been a drop in the numbers in both categories of recommendation (High and Medium) for selected audits but the number jumped in 2008/09, due primarily to additional work carried out on the Creditors system.

As a separate measure, Appendix 4 (table 2) records the total number of High, Medium and Low priority recommendations made over the last four years. After recording a substantial drop between 2005/06 and 2007/08 the position stabilised in 2008/09. Again, this is not an exact science but the table does appear to confirm the improvement trend.

## **7 Fraud Investigations/Awareness**

With the exception of benefit fraud, which is investigated by a specialist fraud team, Internal Audit is responsible for investigating suspected cases of fraud and corruption. There have been no serious cases that needed to be reported to the Audit Committee.

The Anti-Fraud and Corruption Strategy and the Whistleblowing Policy have been reviewed and approved by the Audit Committee. A number of exercises aimed at raising awareness of fraud and corruption have been completed.

## **8 Internal Audit - Quality Assurance**

The Internal Audit team seeks to operate in accordance with the standards laid down by CIPFA. The latest guidance (*Code of Practice – 2006*) reflects changes arising from the 2006 amendments to the Accounts and Audit Regulations 2003 and sets out standards under the following eleven headings:

Scope of Internal Audit  
Independence  
Ethics for Internal Auditors  
Audit Committees  
Relationships  
Staffing, Training and Continuing Professional Development  
Audit Strategy and Planning  
Undertaking Audit Work  
Due Professional Care  
Reporting  
Performance, Quality and Effectiveness.

Every year I carry out a review of Internal Audit's performance against these and report the outcome to the Audit Committee. I am satisfied that there are no material areas of non-compliance with the Code.

Internal Audit's work is subject to review by the external auditors on an annual basis. There has been no criticism of our work over the past year.

Internal Audit has its own quality assurance controls. Standard procedures and working papers are used. For every audit I review the working papers and all versions of the audit report. Any concerns/queries are discussed with individual auditors.

Work on individual audits is carried out by auditors with the appropriate level of skill and experience.

Use is made of customer satisfaction questionnaires as a means of gaining independent comment on our service. Any issues raised are discussed with the customer and the auditor. We try to learn from any mistakes we may make or from suggestions for improvement.

We work with colleagues from other audit teams in Hertfordshire in the exchange of ideas and best practice and also help facilitate joint training sessions covering the latest developments in internal auditing. All auditors from participating authorities attend these sessions. We are currently looking at how working together can be further developed under the Herts Pathfinder initiative.

Barry Austin  
Audit Manager  
27<sup>th</sup> April 2009

**Appendix 1**

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

<b>Project</b>	<b>Progress as at 28<sup>th</sup> February 2009</b>	<b>Days Allocated 2008/09</b>	<b>Days Taken 2008/09</b>
<b>Audits Brought forward – 2007/2008</b>			
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
<b>Total 2007/08 Audits</b>		-	<b>39</b>
<b>2008/2009 Audits</b>			
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 22 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	Final report 24 03 09	7	11.5
HSSA	Final report 03 07 08	5	4.75
Ethics	Final report 23 09 08	8	9.75
Post Implementation Review – Thin Client	Deleted from audit plan	10	1.75
Planning and Development - Projects	Final report 12 12 08	8	15
Benefit Subsidy Claim	Final report	15	16.5

	17 10 08		
WCHT – Service Level Agreements	Final report 07 11 08	8	9.5
Payroll - Establishment Review	Final report 17 12 08	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 report 11 12 08	8	9
National Fraud Initiative (NFI)	Work in progress	5	4.5
Treasury Management	Final report 24 03 09	6	6.25
Benefits Administration	Final report 23 03 09	30	31.5
Council Tax	Final report 30 03 09	15	15.25
Creditors	Final report 12 03 09	15	19.5
NNDR	Final report 30 01 09	10	12
Payroll	Final report 10 02 09	15	15.5
Aptos Reconciliations	Final report 29 01 09	25	25.5
Sundry Debtors	Final report 10 02 09	15	16
Building Control	Final report 09 03 09	4	5
Leisure Facilities (i) construction costs (ii) monitoring operations	(i) Final report 26 03 09 (ii) Work in progress	5 8	8 8.25
Budgetary Control	Final report 31 03 09	7	7.75
Radius	Final report 27 03 09	8	8
Cashiers	Final report 30 03 09	5	5
Accounting Officers	Final report 30 03 09	5	5
Risk Management	Work in progress	15	8.5
Corporate Governance	Draft report 31 03 09	17	15

Asset Management	Work in progress	17	7.5
Shared Services	Work in progress	5	2.25
Contracts – financial appraisals	Work in progress	5	2.5

## **Appendix 2**

### **Time Allocation exceeded by more than two days**

<b>Audit</b>	<b>Target Time per Plan</b>	<b>Actual Time</b>
Partnership Working	15	20
Procurement	7	11.5
P&D Projects	8	15
Geographical Information System	10	12.5
Creditors	15	19.5
Leisure Facilities – Construction costs	5	8
Over-run		26.5

The additional time taken per audit was due to several factors e.g. the first time the audit has been undertaken, unexpected problems encountered during the audit, follow up on queries, insufficient initial allocation and the need to carry out unforeseen testing.

### **Completed in two or more days less than allocated**

<b>Audit</b>	<b>Target Time per Plan</b>	<b>Actual Time</b>
Performance Indicators	30	26.5
Fees and Charges	15	11.5
Under		7

### **Audits still in progress as at 31<sup>st</sup> March 2009.**

Risk Management  
Corporate Governance  
Asset Management  
Shared Services  
Leisure Centres – Performance Monitoring  
Financial Appraisal of Contractors

### **Audits not undertaken as per Audit Plan**

One audit was not undertaken as there was insufficient progress to justify an audit review. The Audit Committee approved the deletion from the audit plan.

Post Implementation review of Thin Client.

### **Additional Audits not included in Original Plan**

Meriden Community Centre – income controls.

**Appendix 3**

**LOCAL PERFORMANCE MEASURES 2008/2009**

**(i) Targets Based on Audit Plan**

Criteria	Target pa (as per audit plan)	Actual 2007/08	Actual 2008/09	Comment
% of revised annual audit plan achieved (based on number of projects)*	90%	87.7%	90.5%	All audits in revised plan have been completed or work is underway.
Sickness – days per FTE	7.5	5	3.5	
Training – days per FTE	6.25	2.9	3.7	Lack of suitable courses.

\* Calculation based on audit plan as approved by the Audit Committee. It takes into account the number of completed audits, the number at preparation of final report stage, at preparation of draft report stage, at completion of fieldwork or % of testing completed. This is in accordance with practice agreed with other Hertfordshire authorities.

**(ii) Other**

Criteria	Target pa	Actual 2007/08	Actual 2008/09	Comment
Final audit report issued within 10 available working days of agreement to draft report.	100%	100%	100%	
Draft reports issued within 10 available working days	100%	80%	84.5%	Audit Manager unable to review work promptly.
Level of customer satisfaction	85%	94.2%	94.7%	Based on 17 questionnaires returned.
The number of “chargeable” days actual/planned	85%	88.9%	98.8%	
Completion of planned follow up work	100%	100%	100%	

## Appendix 4

### **Comparison of number of recommendations made for some of the critical business systems.**

System	2006/07			2007/08			2008/09		
	High	Med	Total	High	Med	Total	High	Med	Total
Council Tax	1	6	7	-	7	7	2	2	4
Debtors	1	1	2	1	2	3	-	1	1
Creditors	5	4	9	1	3	4	9	3	12
Benefits Admin	11	7	18	6	6	12	8	6	14
NNDR	4	2	6	2	2	4	4	3	7
<b>Total</b>	<b>22</b>	<b>20</b>	<b>42</b>	<b>10</b>	<b>20</b>	<b>30</b>	<b>23</b>	<b>15</b>	<b>38</b>

The comparison only relates to those systems where the work undertaken each year does not normally vary significantly. Having said that, the Creditors audit examined some areas not recently reviewed which accounts for the increased number of recommendations.

### **Comparison of Number of Recommendations Made**

Year	No. of Reports	High	Medium	Low	Total
2005/06	39	188	112	7	<b>307</b>
2006/07	32	151	103	24	<b>278</b>
2007/08	37	109	96	6	<b>211</b>
2008/09	37	120	83	7	<b>210</b>

This is purely a statistical exercise but over recent years shows a decrease in the number of recommendations made with virtually no change in the past year. This could be an indication of an overall improvement in controls over the four year period.