

**Report to:** Audit Committee  
**Date of meeting:** 13<sup>th</sup> January 2010  
**Report of:** Audit Manager  
**Title:** Internal Audit Progress Report

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1.0 **SUMMARY**  
This report and appendices provide information on the work undertaken by Internal Audit in the period 1<sup>st</sup> September 2009 to 30<sup>th</sup> November 2009.

2.0 **RECOMMENDATIONS**

2.1 The contents of the report be noted.

**Contact Officer:**

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**Report approved by:** Bernard Clarke – Head of Strategic Finance.

### 3.0 **DETAILS**

3.1 This report covers the work undertaken by Internal Audit during the three months ended 30<sup>th</sup> November 2009. Details are set out in the appendices:

- 1) The latest position on individual audits as at 30<sup>th</sup> 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 of general interest.

3.2 In addition to the new IT systems being introduced as a result of Shared Services there are other processes, especially in Finance, which are also subject to change e.g. the administration of the Treasury Management function. As a result, over recent months, it has been difficult to word Internal Audit recommendations in those functions likely to be affected knowing that systems are due to change with possibly some practices ceasing altogether. Added to which there has also been a reluctance amongst Services to implement recommendations knowing that changes are imminent. A pragmatic approach to such issues has been adopted. Where recommendations have been agreed it has been found that, in the case of Revenues and Benefits and Finance especially, there has been great difficulty in obtaining confirmation that recommendations have actually been implemented. In some cases recommendations have not been acted on. These are still being followed up.

3.3 In 2008 the National Fraud Initiative (NFI) was extended by the Audit Commission to include data matching between the Council Tax and Electoral Registration systems in a bid to identify those individuals who received Single Person Discount for Council Tax but lived in properties where two or more people were recorded on the Electoral Register. Some £84,000 of wrongly claimed discount (fraud and error) was identified and stopped/recovered. This exercise is about to be repeated and the two sets of data have already been despatched.

3.3 Two audits on the themes of fraud and corruption have just been completed. In one, the work of the Fraud Team (Benefits) was compared to DWP's suggested best practice. In the other, measures for preventing/detecting/investigating fraud and corruption generally were reviewed against the Audit Commission's best practice checklist as set out in the recently published *Protecting the Public Purse*. The overall conclusion is that all of the expected policies, controls etc are in place. Some areas for improvement were identified and these will be acted on.

3.4 Time has been spent trying to harmonise policies between Watford and Three Rivers. An example of this is the joint Anti-Fraud and Corruption Strategy and the Whistleblowing Policy. A report on this is included elsewhere on the Committee's agenda.

### 4.0 **IMPLICATIONS**

#### 4.1 **Financial**

4.1.1 The Head of Strategic 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 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

In June 2009 this Committee endorsed the conclusion that the system of internal audit had been effective in the past year.

Grant Thornton, in their Use of Resources 2008/09 report, refer to a robust, comprehensive and effective internal audit service.

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  
2009/2010**

<b>Project</b>	<b>Progress as at 30<sup>th</sup> November 2009</b>	<b>Days Allocated 2009/10</b>	<b>Days Taken 2009/10</b>
<b>Audits Brought forward – 2008/2009</b>			
Leisure Centres – Performance Monitoring	Final report 05 06 09	-	3
Risk Management	Final report 27 04 09	-	3
Corporate Governance	Final report 09 04 09	-	0.25
Asset Management	Final report 02 06 09	-	10
Financial Appraisal of Contractors	Final report 20 08 09	-	7.25
<b>2008/09 Audits - Total</b>		<b>-</b>	<b>23.5</b>
<b>2009/2010 Audits</b>			
Community Centres	Final report 24 07 09	10	12.25
Freedom of Information	Final report 13 08 09	6	9
Data Protection	Final report 20 09 09	6	9.5
Performance Indicators (2008/09)	Final report 14 08 09	25	24.25
Town Hall Security	Final report 15 07 09	8	11.25
Disabled Facilities Grants	Final report 26 08 09	10	13.25
Health and Safety	Draft report 19 08 09	10	15
Leisure Centres – Final Account	Awaiting final account	4	1.75
Development Control	Final report 18 09 09	6	10
Benefit Fraud Team	Draft report 19 10 09	10	15
Licensing	Final report 30 11 09	15	15
Housing Benefit Subsidy Claim 2008/09	Final report 22 09 09	20	20.75
Payroll	1. Final report 05 11 09	5	11
Benefits – stage 1	1.draft report	38	14

- stage 2	14 10 09		
Council tax – stage1	1. draft report stage	21	8
- stage 2			
NNDR – stage 1	1. draft report stage	20	11.5
- stage 2			
Cemeteries	Final report 19 11 09	6	8.75
IT – back up arrangements	Work in progress	10	3.5
Members' Allowances	Final report 28 10 09	2	3.5
National Fraud Initiative	Work in progress	8	5.25
Treasury Management	Draft report stage	10	12
Creditors	Work in progress	15	1.5
Debtors	Draft report stage	15	13.25
Asset Management	Work in progress	15	5.5
Fraud Awareness	Draft report stage	10	11.75
Procurement - contracts	Draft report 23 11 09	10	14
Corporate Governance	Work in progress	10	3.25
Risk Management	Work in progress	10	11
Use of Natural resources	Work in progress	15	1.25
Shared Services – joint policies	Work in progress	10	1.25
West Herts Crematorium	Not started – background research	10	0.25

**APPENDIX 2**

**LOCAL PERFORMANCE MEASURES 2009/2010**

<b>Criteria</b>	<b>Target p.a. (as per Audit Plan)</b>	<b>To 30<sup>th</sup> November 2009</b>	<b>Comment</b>
% of annual audit plan achieved. Based on number of audits.	85%	-	Best measured on an annual basis. (Actual 2008/09 – 90.5%). Progress throughout the year is continually monitored by the Audit Manager.
Sickness – average	4	2	(Actual days for 2008/09 – 3.5)
Training – average	6.25	4.25	Time includes for internal and external seminars/training. All auditors now hold a relevant qualification. (Actual 2008/09 – 3.7). More training is planned.

<b>Criteria</b>	<b>Target p.a.</b>	<b>Actual To 30<sup>th</sup> November 2009</b>	<b>Comment</b>
Final audit reports issued within 10 available working days of agreement to draft report.	100%	100%	(Actual 2008/09 – 100%)
Level of customer satisfaction	90%	97.25%	Based on 4 questionnaires returned since 1 <sup>st</sup> April. (Actual 2008/09 – 94.7%).

### **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 Health and Safety**

The auditor expressed a number of serious reservations as a result of this audit and over thirty recommendations (some linked) were made.

Whilst a corporate structure for the management of health and safety exists, the Council has yet to effectively implement systematic processes across the council. Health and safety risk assessments have not been systematically reviewed, general health and safety training has not been coordinated for existing staff, documentation from the statutory inspections of plant and premises is poorly organised and access to current health and safety policies and guidance is inconsistent.

Staffing changes in recent years have shifted focus and resource away from some of the routine processes for managing health and safety. This has led to a situation where records have not been effectively maintained in some areas.

The role of Corporate Health & Safety Adviser is shared with Three Rivers District Council. This inevitably limits the time available to focus specifically on the developmental needs within Watford Borough Council. This situation should improve once the work on harmonisation of corporate policies and processes between the two councils has been completed.

The Corporate Health & Safety Adviser is working to address a number of identified shortfalls in the Council's health and safety arrangements and has already implemented some changes.

The conclusions of this report were due to be reported to the first Leadership Team meeting in 2010.

#### **2 Payroll**

Detailed testing of the new payroll arrangements (NorthgateArinso) has not been carried out; this will be undertaken for 2009/2010 by Deloitte under our Shared Service agreement. A review of those payroll support functions which will continue to be provided by HR has however been completed and a number of weaknesses were identified as full consideration had not been given to these activities e.g. checking of input data, the nature of exception reports from NorthgateArinso, controls over honoraria and checking of output during the implementation process.

These issues were raised at a meeting of the payroll steering group when decisions were taken on the way forward. Internal Audit is monitoring progress.

### **3 Contracts**

Following the financial vetting of contractors audit, further work has been carried out to ensure that contracts are being let in accordance with Contract Procedure Rules. A small sample of three contracts identified varying degrees of non-compliance with these Rules.

New Contract Procedure Rules have been drawn up which are due to be presented to Council for approval in January. Following that there will be a presentation to Leadership Team to explain the revised requirements.

### **B Emerging Issues**

Ongoing work.

No significant areas of concern to report.