

WATFORD BOROUGH COUNCIL
INTERNAL AUDIT SERVICE
ANNUAL REPORT 2009/2010

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1 Introduction

This report summarises the work undertaken by Internal Audit in 2009/2010. It meets the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 by:

- (i) including an opinion on the overall adequacy and effectiveness of the Council's control environment
- (ii) disclosing any qualifications to that opinion, together with the reasons for the qualification
- (iii) presenting a summary of audit work undertaken to formulate the opinion, including reliance placed on the work of other assurance bodies
- (iv) drawing attention to any issue the Head of Internal Audit judges particularly relevant to the production of the Annual Governance Statement
- (v) comparing the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit team against its performance measures and
- (vi) commenting on compliance with the CIPFA standards and communicating the results of the Internal Audit quality assurance programme.

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.

The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The work undertaken by Internal Audit must not be seen as a substitute for management's responsibility for maintaining sound management practices, including robust controls.

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 the regular progress reports. This avoids the need for a separate progress report. The work in question relates to the period from 1st March 2010 to 31st March 2010 (see 5.1 below).

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 and internal controls *within the systems audited* have been satisfactorily applied during 2009/2010. 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 during the year related to improvements in existing controls, recommendations for alternative or additional controls or the adoption of measures of best practice.

Every 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 throughout the year to the Audit Committee in respect of findings of individual audits, I do not feel that any of these constitute a qualification to my overall opinion.

I feel it necessary to mention however that there are potential problem areas which I have become aware of by way of mainly by notification or observation as 2009/10 has progressed. Some have arisen as a result of audits undertaken and have already been reported. Not surprisingly most relate to the significant system/procedural changes being introduced under Shared Services and some no doubt will turn out to be “teething” problems which are readily resolved. Those of immediate concern are in Payroll and Benefits, examples of which include:

- Payroll. There have been ongoing discussions with the Head of HR re. improving controls over input to and output from the new payroll system (NorthgateArinso) and a series of control measures had been agreed in principle. Not all of these had been fully implemented. In addition, Deloitte have just completed the 2009/10 audit of payroll on behalf of Watford and Three Rivers. It has been agreed with the Head of HR that the control measures will be actioned in conjunction with the recommendations arising from Deloitte's report.
- Benefits. Internal and external audit and the DWP have expressed concerns over the completion of the Housing Benefit Subsidy claim. These have been difficult to resolve, especially the reconciliations between the claim and information on the Financial Management System. It has also been drawn to my attention that monthly returns to the Housing Benefit Matching Service (a data matching service which helps identify potential fraudulent benefit claims) have not been submitted. This could lead to criticism from the DWP and the Audit Commission and an increase in fraud unless quickly resolved.

Time has been allowed in the 2010/11 audit plan to review the areas in question. Consideration must be given to reflecting the risks associated with these in the Annual Governance Statement.

4 Basis of Opinion

4.1 Work Undertaken

The work undertaken by Internal Audit during the 2009/2010 financial year was in accordance with the Audit Plan as approved and amended by the Audit Committee. Based on the number of audits undertaken 94.5% of the planned work has been completed, including all audits of the key systems. This figure needs to be qualified by the fact that delays in the implementation of the new Revenues and Benefits systems (Council Tax, NNDR and Benefits) until February 2010 meant that it was not practical to undertake detailed work on the new systems (as reported to March Audit Committee). Nevertheless, the work completed was sufficient to enable me to provide a reasoned opinion on the overall adequacy and effectiveness of the control environment. By the time all of the audits are completed 41 reports will have been issued (37 in 2008/09), 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 The Scope of the Audit Plan

The 2009/10 Audit Plan was based on discussions with senior managers to identify their key concerns, on my knowledge of developments within the Council, on Internal Audit's own long-term risk assessment and fraud risk assessment, on the requirements and results of external assessments and on a review of risk registers.

The draft plan was discussed with the Head of Strategic Finance and approved by the Audit Committee in March 2009.

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

4.3 Implementation of Recommendations

When an audit is 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 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 governance issues raised in the 2008/2009 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 2009 to February 2010. The following section outlines two further issues arising from audits undertaken during March 2010 which have not already been reported to the Audit Committee.

5.1 Work undertaken during March 2010

5.1.1 Council Tax and NNDR

The auditors looked at the transfer of data from the old (Civica) to the new systems (Academy) for these two functions. There was no evidence to substantiate the assertion that checks had been carried out to ensure that all errors identified in the transfer of data had been corrected. In addition, a full set of reports setting out the errors was not retained in-house.

5.1.2 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 issue had been raised at Leadership Team following the last audit report and has again been raised as a result of the latest report.

5.1.3 Shared Services HR and Payroll Audits

These two audits were undertaken by Deloitte on behalf of Shared Services. The only area of concern arose from the Payroll audit which identified a number of discrepancies in the treatment of employees' pension contributions. These anomalies have been addressed and new procedures established.

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 but it may not be feasible to repeat this

exercise in future as all of the systems selected are undergoing change following the introduction of new systems and ways of working under Shared Services.

The details are shown in Appendix 4

7 Fraud Investigations/Awareness

With the exception of benefit fraud, which is investigated by the Benefit Fraud Team, Internal Audit is responsible for investigating suspected cases of fraud and corruption. There have been no cases that needed reporting 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.

I have carried out a detailed review of Internal Audit's performance against the standards and have reported the outcome to the Head of Strategic Finance for input into the annual review of the effectiveness of the system of internal audit. 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.

Barry Austin
Audit Manager
6th May 2010

Appendix 1

Work Progress on Individual Audits
2009/2010

Project	Progress as at 31 st March 2010	Days Allocated 2009/10	Days Taken 2009/10
Audits Brought forward – 2008/2009			
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
2008/09 Audits - Total		-	23.5
2009/2010 Audits			
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	Final report 14 12 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	Final report 04 12 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	Final report	5	11

	05 11 09		
Benefits Admin	Final report 08 01 10	38	14
Council Tax	Final report 02 03 10	21	11.25
NNDR	Final report 02 03 10	20	15.5
Cemeteries	Final report 19 11 09	6	8.75
IT – back up arrangements	Final report 12 03 10	10	12.25
Members' Allowances	Final report 28 10 09	2	3.5
National Fraud Initiative	Completed. No report	8	5.25
Treasury Management	Final report 31 03 10	10	13.25
Creditors	Final report 26 03 10	15	16
Debtors	Final report 03 02 10	15	15
Asset Management	Final report 13 04 10	15	22.25
Fraud Awareness	Final report 15 12 09	10	11.75
Procurement - contracts	Final report 03 02 10	10	14.5
Corporate Governance	Completed	10	3.25
Risk Management	Final report 09 03 10	10	12
Use of Natural resources	Draft report 31 03 10	15	19.25
Shared Services – joint policies	Completed	10	6.5
West Herts Crematorium	Final report 11 03 10	10	9.5
Budgetary Control	Draft report 31 03 10	10	10
Radius	Draft report 31 03 10	10	12.25
Cashiers	Final report 08 03 10	5	5
Partnerships	Draft report 31 03 10	10	10.5
Data Quality	Draft report 31 03 10	10	10.75
Commercial Rents	Draft report 31 03 10	8	9

FMS Data Transfer	Draft report 22 03 10	30	24.75
Planning and Development Control – (VFM project)	Completed. No report	5	2.5
Secure Data Transmission	Work in progress	5	0.5
Shared Services HR	Final report May 2010	23	23
Payroll	Final report May 2010	Inc. in above	Inc. in above

Appendix 2

Time Allocation exceeded by more than two days

Audit	Target Time per Plan	Actual Time
Community Centres	10	12.25
Freedom of Information	6	9
Data Protection	6	9.5
Town Hall Security	8	11.25
Health & Safety	10	15
Development Control	6	10
Benefit Fraud Team	10	15
Payroll	5	11
Cemeteries	6	8.75
IT Back-up	10	12.25
Treasury Management	10	13.25
Asset Management	15	22.5
Procurement (Contracts)	10	14.5
Use of Natural Resources	15	19.25
Radius	10	12.25
Days Over		58.5

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

Audit	Target Time per Plan	Actual Time
Benefit Admin	38	14
Council tax	21	11.25
NNDR	20	15.5
National Fraud Initiative	8	5.25
Corporate Governance	10	3.25
SS Joint Policies	10	6.5
FMS Data Transfer	30	24.75
Days Under		56

Audits still in progress as at 31st March 2010.

Leisure Centres – Final Account (awaiting account).
Secure Data Transmission – work in progress.

Draft audit reports had been issued for the following:

Use of Natural Resources
Budgetary Control
Radius
Data Quality
Commercial Rents
FMS Data Transfer
Partnerships
Shared Services HR
Payroll

Audits not undertaken as per Audit Plan

The Audit Committee approved deletion from the audit plan:

Shared Services Accounts

Additional Works not included in the Audit Plan

Planning Fees – VFM work.

LOCAL PERFORMANCE MEASURES 2009/2010

(i) Targets Based on Audit Plan

Criteria	Target pa (as per audit plan)	Actual 2008/09	Actual 2009/10	Comment
% of revised annual audit plan achieved (based on number of projects)*	90%	90.5%	94.5%	
Sickness – days per FTE	4	3.5	2	
Training – days per FTE	5	3.7	5.1	

* 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 2008/09	Actual 2009/10	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%	84.5%	88.25%	Audit Manager unable to review work promptly.
Level of customer satisfaction	85%	94.7%	98.02%	Based on 6 questionnaires returned.
The number of “chargeable” days actual/planned	85%	98.8%	100%	
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	2007/08			2008/09			2009/10		
	High	Med	Total	High	Med	Total	High	Med	Total
Council Tax	-	7	7	2	2	4	4	2	6
Debtors	1	2	3	-	1	1	-	1	1
Creditors	1	3	4	9	3	12	3	3	6
Benefits Admin	6	6	12	8	6	14	7	-	7
NNDR	2	2	4	4	3	7	2	-	2
Total	10	20	30	23	15	38	16	6	22

The comparison only relates to those systems where the work undertaken each year does not normally vary significantly. This shows a considerable reduction in the number of recommendations for key some systems.