

ITEM 13 - APPENDIX

WATFORD BOROUGH COUNCIL

INTERIM ANNUAL INTERNAL AUDIT REPORT 2010/2011

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1 Introduction

As this report is being submitted to the Audit Committee before the end of the 2010/2011 financial year and the completion of Internal Audit's programme of work, the audit opinion outlined within the report is an interim opinion only. Should it be necessary to amend this opinion as audits are completed and system improvements made a revised version will be submitted to the next meeting of the Audit Committee.

The report has been prepared earlier than is normally the case and so it is not possible to produce as comprehensive a report as usual e.g. the annual performance measures are not included.

This report summarises the work undertaken by Internal Audit in 2010/2011 to the end of February. It covers functions performed directly by Watford BC and by Shared Services on its behalf. The report 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 summarising 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 is not 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

Having reviewed the work undertaken by Internal Audit to date I feel that I am unable to give an unqualified opinion on the adequacy and effectiveness of the internal control environment, somewhat contrary to the generally positive reports I have been able to give over recent years.

Whilst there have been few significant concerns arising from the majority of the audits undertaken there are some exceptions (see 3 below) which are predominantly associated with the major changes brought about by the introduction of Shared Services and, in particular, the introduction of new systems. These changes had a significant impact on control arrangements in certain key areas. The degree of change has been considerable over the last 18 months or so and any organisation going through the same level of changes might well experience operational problems.

Members and Officers are aware of the various problems and are working towards solutions which should improve the position. Nevertheless, I am only able to report on the position as it currently stands.

The factors taken into account in forming the opinion are set out in more detail in sections 3, 4 and 5 below.

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 Audit Qualifications

It is the practice to carry out audits of the key financial systems towards the end of the financial year in order to be able to give an opinion on the effectiveness of controls within each system throughout the whole year. This allows assurance to be given not only to Heads of Services but also to the external auditors when they carry out their final accounts work. Consequently, shortcomings associated with those systems are now being identified/verified by Internal Audit.

These matters should be considered for inclusion in the Annual Governance Statement.

- **Revenues and Benefits**

An independent consultant was appointed to review procedures across the Revenues and Benefits Service. The review identified a number of significant concerns e.g. over reconciliations and internal controls and an action plan was drawn up to address them. Internal Audit carried out follow up audits (February 2011) to check on the implementation of the recommendations made by the consultant but was only able to verify that some had been actioned.

- **Bank Reconciliations**

The General Account (the Council's main bank account) had not been reconciled until January 2011. The lengthy delay in completing what should be a monthly process represents a significant control weakness.

- **Reconciliations to the Financial Management System (COA)**

An audit of reconciliations between the various feeder systems (Academy, payroll etc) and COA carried out in January/February 2011 identified that there had been no reconciliations carried out between the Revenues and Benefits system (Academy) for Council Tax, NNDR and Housing and Council Tax Benefits. The Rent Allowance Account had not been balanced either.

- **Payroll**

The outsourcing of the payroll function led to a loss of payroll expertise and internal controls associated with an in-house provider. An audit of payroll concentrated on procedures within HR who reported that, during the year, improvements had been made in their own procedures but that some basic checks previously carried out by the payroll team were now the responsibility of NorthgateArinso. Input and output controls within NorthgateArinso will form the main focus of the 2011/12 payroll audit.

- **ICT**

The experience of users during the year and the outcome of audits undertaken illustrate the need to ensure that the capacity, security and

resilience of hardware and software must be adequate for current and future requirements. An audit of change management identified the need for a formal change management policy to ensure that consistent, secure procedures are in place.

4 Basis of Opinion

4.1 Work Undertaken

The work undertaken by Internal Audit during the 2010/2011 financial year was in accordance with the Audit Plan as approved by the Audit Committee. As at mid-February a substantial percentage of the plan had been completed and it is estimated that virtually all will have been completed by 31st March, including all key systems audits. The work completed has been sufficient to enable me to provide a reasoned interim opinion on the overall adequacy and effectiveness of the control environment.

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 2010/2011 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 2010.

The planning process should therefore help 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 the timescales within which they will be implemented.

All recommendations are followed up to ensure that action has been taken, or where not, that there is an acceptable reason. All reports containing High or Medium priority recommendations are 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 Leadership Team and to the Audit Committee.

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 2009/2010 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.
- 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 and by the consultants (ISCAS) who carried out a review of operations within the Revenues and Benefits Service.

5 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 to be reported to the Audit Committee.

6 Internal Audit - Quality Assurance

The Internal Audit team seeks to operate in accordance with the standards laid down by CIPFA in the Code of Practice for Internal Audit in Local Government in the UK (2006) which sets out auditing 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.

Based on reviews undertaken to date, 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
4th March 2011

Appendix 1

Work Progress on Individual Audits
2010/2011

Project	Progress as at 28 th February 2011	Days Allocated 2010/11	Days Taken 2010/11
Audits Brought forward – 2009/2010			
Use of Natural Resources	Final report	-	0.5
Budget Monitoring	Final report	-	0.5
Radius	Final report	-	1.5
Data Quality	Final report	-	0.5
Commercial Rents	Final report	-	1
Secure Data Transmission	Report not issued. Dealt with on a Service by Service basis	-	5
Financial Management System	Final report	-	0.5
Partnerships	Final report	-	1.75
2009/10 Audits - Total		-	11.25
2010/2011 Audits			
Shared Audits			
Parking Control	Final report 12 10 10	20	22
Post/Cheque Handling	Final report 01 11 10	10	15
IT – BACS Payments	Draft report 30 06 10	10	11.5
Payroll	Draft report 08 12 10	20	28
IT – IT Service Desk and Change Management	Draft report 26 11 10	10	9
Creditors	Draft report stage	20	20
Debtors	Draft report stage	20	20
Benefits Administration	Work in progress	25	14.5
Council Tax	Work in progress	20	10
NNDR	Work in progress	20	11
Financial Management System	Draft report stage	25	30

VAT	Work allocated	10	
Procurement	Final report 15 12 10	15	12
IT – Information Governance	Work in progress	12	4
IT – Disaster Recovery and Back up, replaced by Remote Working	Work allocated	10	
Watford BC			
Trade waste	Final report 04 08 10	10	9.5
Performance Management	Final report 15 11 10	15	16.5
Treasury Management	Final report 18 10 10	10	11
Risk Management	Final report 13 12 10	10	10.5
Homelessness and Housing Needs	Final report 01 11 10	5	4
Authorised signatories	Final reports (3) 18 10 10	3	4
Community Centres transfer	Final report 13 10 10	8	7
H&S follow up	Final report 01 11 10	10	13
Leisure Management Contract monitoring	Work in progress	5	0.25
Asset Management	Draft report 20 12 10	12	19
Grants to Voluntary Sector	Final report 23 12 10	10	16
Ben Subsidy Claim – inc. in Benefit Administration	Work in progress	15	
Budgetary Control	Draft report 16 12 10	10	12.75
Data Quality (inc. security)	Work in progress	10	0.5
Project Management	Final report 15 11 10	10	10
Cash and Banking	Work in progress	18	6.5

APPENDIX 2

LOCAL PERFORMANCE MEASURES 2010/2011

Criteria	Target p.a. (as per Audit Plan)	To 28 th February 2011	Comment
% of annual audit plan achieved. Based on number of audits.	92%	-	Best measured on an annual basis. (Actual 2009/10 – 94.5%). Progress throughout the year is continually monitored by the Audit Manager.
Sickness – average	4	2.4	(Actual days for 2009/10 – 2)
Training – average	4	3	Time includes for internal and external seminars/training. All auditors hold a relevant qualification and two are now studying for a higher qualification. (Actual 2009/10 – 5.1).

Criteria	Target p.a.	Actual To 28 th February 2011	Comment
Final audit reports issued within 10 available working days of agreement to draft report.	100%	100%	(Actual 2009/10 – 100 %)
Level of customer satisfaction	94%	93%	Based on 3 questionnaires returned since 1 st April. (Actual 2009/10 – 98.2%).