AUDIT COMMITTEE

Wednesday, 13th March, 2013

7.00 pm

Town Hall, Watford

Publication date: 5 March 2013

CONTACT
If you require further information or you would like a copy of this agenda in another format, e.g. large print, please contact Sandra Hancock in Legal and Property Services on 01923 278377 or by email to legalanddemocratic@watford.gov.uk .

Welcome to this meeting. We hope you find these notes useful.

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COMMITTEE MEMBERSHIP

Councillor I Brown (Chair)
Councillor A Burtenshaw (Vice-Chair)
Councillors I Brandon, A Khan and P Taylor

AGENDA

PART A - OPEN TO THE PUBLIC

1. **APOLOGIES FOR ABSENCE/COMMITTEE MEMBERSHIP**

2. **DISCLOSURE OF INTERESTS (IF ANY)**

3. **MINUTES**

   The minutes of the meeting held on 10 January 2013 to be submitted and signed.

4. **GRANT THORNTON UPDATE** (Pages 1 - 18)

   This report provides a general up date regarding national developments and specific issues relevant to Watford.

5. **TREASURY MANAGEMENT UPDATE REPORT** (Pages 19 - 26)

   This report provides the regular review of the Council's Treasury Management Strategy and investment performance.

6. **TREASURY POLICY STATEMENT** (To Follow)

   Report to follow

7. **IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS** (Pages 27 - 60)

   This report provides an update on those recommendations reported to Audit Committee as outstanding in January 2013.

8. **INTERNAL AUDIT PROGRESS REPORT** (Pages 61 - 68)

   This report and appendices provide updated information on the work undertaken by Internal Audit on the 2012/2013 Audit Plan in the period 1 April 2012 to 15 February 2013.

9. **INTERNAL AUDIT PLAN 2013/2014** (Pages 69 - 82)

   This report seeks approval of the Internal Audit Plan for 2013/2014.

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PART A

Report to:	Audit Committee
Date of meeting:	13th March 2013
Report of:	Head of Strategic Finance
Title:	Grant Thornton Update

1.0 **SUMMARY**

1.1 Attached is a general up date regarding national developments and specific issues relevant to Watford.

2.0 **RECOMMENDATIONS**

2.1 That the Committee considers the attached paper and the response from the Head of Strategic Finance.

Contact Officer:
For further information on this report please contact: Bernard Clarke, Head of Strategic Finance, telephone extension: 8189 email: bernard.clarke@watford.gov.uk

3.0   **RESPONSE TO ATTACHED PAPER**

3.1   Grant Thornton (on Page 5 of attached report) refer to discussions regarding lease agreements for the Harlequin and Charter Place. These discussions were instigated by the Council and concerns potential changes to the current financial arrangements with Capital Shopping Centres (CSC) and has been necessitated by changes in accounting methodology through International Financial Reporting Standards (IFRS)

3.2   Simplistically, as far as IFRS is concerned there are two types of 'lease arrangement'—a finance lease and an operational lease. For local authorities there is a significant difference between the two whereby if any financial arrangement is determined to be a finance lease then any income generated has to be classified as a capital receipt. If however a lease is agreed to be an operating lease then the income is classified as revenue income. Current agreements for the Harlequin (INTU) Centre have allowed all income to be treated as revenue. In seeking to reach agreement on the redevelopment of Charter Place, CSC has requested current agreements should be amended.

3.3   It is vitally important therefore that the structure of any amended agreement does not change the current situation whereby all income is treated as revenue. Should this not be the case and any of the considerable rental income be treated as a finance lease (and hence become a capital receipt) then the Council would have a rather large hole in its revenue budget. Discussions with Grant Thornton are ongoing.

3.4   Also on Page 5 of attached Paper reference is made to advice regarding the treatment of Growing Places Funding at the Health Campus. This discussion was again instigated by the Council and could potentially have a significant effect upon revenue budgets. Accountancy treatment is again the 'villain of the piece'. The Council would wish to borrow £6m from the Local Enterprise Partnership (LEP) to help fund infrastructure works at the Health Campus. Under accounting rules the Council would need to make provision for the repayment of the loan through a 'Minimum Revenue Provision' (MRP) in its annual budget. The loan (in actual fact two loans of £3m) needs to be repaid back within 5 years of their having been taken up.

3.5   The need to make an annual provision is not necessary however if it can be demonstrated that a return on the up front investment is relatively certain within the five year period. The financial arrangements with our Health Campus partner, Kier, is seeking to ensure that the £6m Growing Places funding will be prioritised in any future dividends.

3.6   Grant Thornton also refer (on Page7) to the recently introduced retention of business rates. The Council has received forecasts of the effects upon Watford. The most recent in February 2013 from the DCLG seemed to suggest that the Council would be better off under the new system. The DCLG did not fully take into account the potential for business rate appeals currently outstanding with the Valuation Office. Any increased 'yield' from business rates would also be dependent upon the annual uplift to business rates (2.6%, RPI). There is strong pressure upon the Chancellor of the Exchequer in his 20th March Budget to actually freeze any increase in business rates. The Council's MTFS has been cautious therefore and assumed no benefit (or shortfall) in business rate income in 2013 onwards. It is anticipated that before planning the 2014/2015 Budget that further modelling will

take place.

3.7   Grant Thornton has highlighted (on Page 8) the fact that Municipal Mutual Insurance
       has announced it can no longer guarantee a solvent run off. This has been
       anticipated by Watford for the past two years. The Statement of Accounts for both
       2010/2011 and 2011/2012 (Page 74) has highlighted this likelihood as a Contingent
       Liability. The Council currently has outstanding claims from potential litigants of
       £348k and dates back over a decade and may not be settled. Nevertheless, the
       Council's general reserves has included £100k as cover should this £348k be fully
       realised. I will discuss with Grant Thornton as part of Final Accounts closure for
       2012/2013 whether this £100k needs to be moved from reserves into the
       'provisions' section of the Balance Sheet.

3.8   Grant Thornton's update also refers to six reports produced by the Audit
       Commission (Pages 9 to 12 refer) and asks 'have you considered them'? The
       simple answer is NO. Part of the concerns of local government was that councils
       were required to follow the Audit Commission's agenda rather than manage their
       own affairs. There seemed to be a presumption that local councils (particularly small
       district councils) had a staff resource retained to consider regular reports produced
       by 'technicians' within the Commission. The demise of the Commission was
       generally welcomed in large areas of local government and has had the effect of
       considerably reducing external audit fees. The most substantial issues within these
       reports are reflected within the way Watford conducts its business and prepares its
       financial planning. Many of the issues have been reflected within Grant Thornton's
       own reports on issues such as financial resilience and value for money. The latest
       report on improving Council Governance is currently being studied as I would intend
       to report the Annual Governance Statement to the Audit Committee at its June
       meeting.

3.9   Page 12 of the attached document refers to preparation for closure of the 2012/2013
       final accounts. In terms of specific questions: I do not believe there are any key risks
       in preparing the financial statements for 2012/2013, there has been no major
       changes in staff resource and financial figures are looking very comfortable at the
       present time. Timetables have been produced and meetings held with Grant
       Thornton. So far, so good.

3.10   Finally, on Page 12, the issue of Reserves is highlighted. The Audit Committee has
       considered this in the past (as indeed has the Budget Panel). The Council actually
       highlights a number of different reserves and explains why they are necessary. At
       paragraph 3.7 earlier reference has been made to the insurance reserve which has
       now 'come into play' and has effectively been fully justified.' In setting the budget the
       report provides a separate section upon the Council's holding of reserves prior to
       agreeing a council Tax. Watford, in my view, has an exceptionally transparent
       process where reserves are concerned.

4.0   **IMPLICATIONS**

4.1   **Financial Issues**

       The Head of Strategic Finance comments that the up date from Grant Thornton is
       an extremely useful aide memoire and has effectively confirmed that all financial
       implications have been reflected within current Council plans and Statement of
       Accounts.

4.2 **Legal Issues** (Monitoring Officer)

The Head of Legal and Property Services comments that there are no legal implications arising directly out of this report.

4..3 **Potential Risks**

Potential Risk	Likelihood	Impact	Overall score
That the Council will fail to anticipate future financial pressures.	1	4	4

4.4 **Staffing**

None Directly

4.5 **Accommodation**

None Directly

Appendix 1: Grant Thornton Update

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Grant Thornton

Audit Committee Update
for Watford BC

Financial year: 2012/13

1 March 2013

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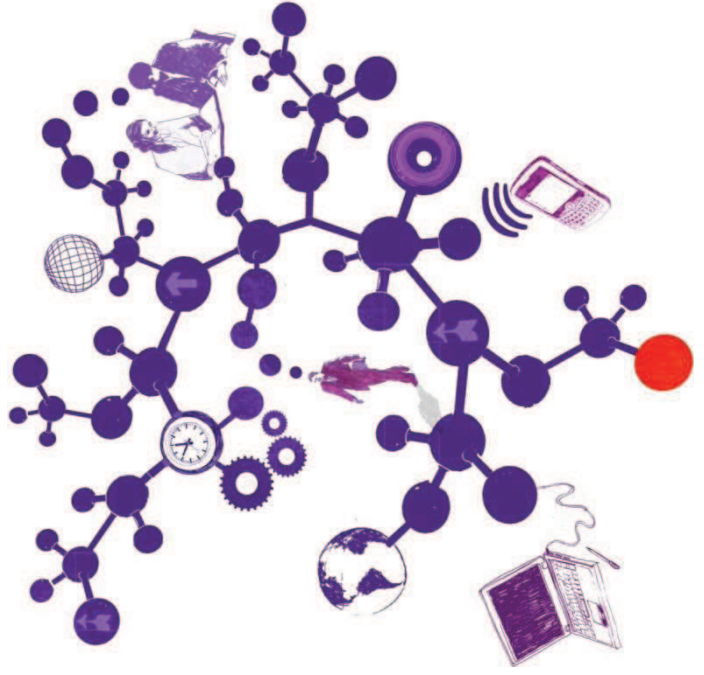**Richard Lawson**
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Contents

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

•a summary of emerging national issues and developments that may be relevant to you as a District Council
•includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications - 'Local Government Governance Review 2012', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress at March 2013

Work	Planned date	Complete?	Comments
2012-13 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2012-13 financial statements.	The audit plan will be prepared for the end of April and enter the June audit committee cycle.		
Interim accounts audit Our interim fieldwork visit will include the following: •updated review of the Council control environment •update understanding of financial systems •review of Internal Audit reports on core financial systems •early work on emerging accounting issues •early substantive testing •proposed Value for Money conclusion.	The interim audit has been booked for 2 April 2013 Work to support the value for money conclusion will be performed in March/April 2013.		
2012-13 final accounts audit Including: •audit of the 2012-13 financial statements •proposed opinion on the Council's accounts	We have agreed with finance that we commence the final audit on 15th July 2013.		We are currently discussing with the Council: ▪Treatment of the proposed lease for the Harlequin and Charter Place. ▪Advice over growing places funding for the Health Campus.

Progress at March 2013

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2012/13 VFM conclusion comprises: Assessing the arrangements the Council has in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for: • securing financial resilience; and • prioritising resources within tighter budgets.	March/April 2013		

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Emerging issues and developments

Accounting and audit issues

Implications of the Local Government Finance Act 2012

The Local Government Finance Act 2012 has now been given Royal Assent. The Act has amendments in two areas of local government finance:

• Council tax support will now be localised and local authorities will be responsible for implementing their own council tax reduction schemes.

• 50% of the non domestic rates collected locally will be retained by the local authority. Billing authorities will pay over a share to central government and proportionate shares to their precepting bodies.

In December 2012, CIPFA issued a consultation on proposed amendments to the 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom for the implications of business rates retention schemes. In summary, the changes are to account for business rates in a similar way to council tax. The Comprehensive Income and Expenditure Statement will need to show amounts collectible by each authority. Debtors/creditors will be recognised when these amounts do not match the actual amounts paid by each billing authority over to preceptors and government. The Collection Fund adjustment account will be used for accounting for the differences. Top-ups and tariffs and the safety net and levy will be recognised as grant income or expenditure. Individual authorities in a pool will need to account for their share of income and expenditure debtors/creditors as stipulated in any agreement made by individual authorities in the pool.

Challenge questions:
• Do you know your key risks?
• Have officers ensured the financial impact is fed into medium term financial plans?
• Have officers undertaken modelling of future business rates growth?
• Have officers considered the possible impact on council tax collection rates if they do reduce benefit entitlement in line with the funding reduction?
• Has your Head of Strategic Finance reviewed the proposed amendments to the 2013/14 Code and assessed the potential impact?

Emerging issues and developments

Accounting and audit issues

Provisions

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', the criteria for recognising a provision is that there is:

• a current obligation as a result of a past event;
• a transfer of economic benefit is probable; and
• a reliable estimate of the liability can be made.

We wish to highlight the following matters to you for consideration where a provision may be required:

• Mutual Municipal Insurance – the Scheme of Arrangement was triggered in November 2012, therefore it is now virtually certain that there will be a transfer of economic benefit. If this liability has not been discharged by 31 March 2013, we would expect local authorities to recognise a creditor or, if the timing or amount of the payment is uncertain, a provision in their financial statements.

• Redundancy costs –the recognition point for termination benefits fall under IAS 19 'Employee Benefits'. This is generally earlier than the IAS 37 recognition criteria for restructuring which requires that a valid expectation has been raised in those affected. The requirement in IAS 19 is that the entity is 'demonstrably committed'.

Challenge question:
• Has the Head of Strategic Finance considered the need for additional provisions for the above matters?

Emerging issues and developments

Grant Thornton

'Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities' [

In December 2012, Grant Thornton published 'Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities'. This financial health review considers key indicators of financial performance, financial governance, strategic financial planning and financial controls to provide a summary update on how the sector is coping with the service and financial challenges faced. The report provides a summary of the key issues, trends and good practice emerging from the review.

Challenge questions:
•Have you considered the findings of the report?
•Are there any issues that relate to your authority and what action are you going to take?

Local Government Governance Review 2013: Improving Council Governance – A Slow Burner

The report is part of our wider analysis of UK governance practice and complements reviews on corporates in the FTSE 350, the NHS and charities. With this suite, we aim to help organisations improve their governance by learning from other sectors and their peers.

Effective and embedded governance frameworks will be essential to meeting these challenges and to ensuring councils progress effectively, with the support of all their stakeholders. Good governance is essential to both council leaders and the public. It supports leaders in making the best decisions, reduces the likelihood of things going wrong and protects them when problems do occur and it inspires confidence in the public that the best decisions are being taken for the right reasons, that the quality of service is protected and that public money is being wisely spent.

We surveyed 64 local government leaders and analysed 153 council annual governance statements (AGSs) and explanatory forewords. In our research, and in structuring our review, we focused on both the public face of governance (the documents that councils publish, in print and online) and governance behind the scenes (as demonstrated by council people and processes). Both are essential to effective governance.

We found examples of good council practice in both public and non-public facing governance and, to help councils raise the bar, we have cited noteworthy activity in our report. However, we did not find an entirely exemplary set of governance documents or approach to governance in any one organisation.

Emerging issues and developments

Grant Thornton

Our findings include:

- one third of survey respondents do not consider that council accounts are aimed at the public and the length and technical complexity makes them difficult to understand
- many council AGS follow too rigidly the example text in the CIPFA/SOLACE guidance, rather than reflecting the unique features and challenges of their own organisation
- explanatory forewords are often far from 'explanatory', being hard to read and not aligned to councils' strategic goals
- on-going governance processes and year-end statements are commonly two distinct exercises. This generates inefficiency in gathering assurances, makes it difficult for stakeholders to understand the ultimate purpose of these processes and diminishes engagement
- there is often a lack of understanding within local authorities about what the governance framework is for and how it fits together
- councils often do not give sufficient focus on addressing cultural issues when implementing change
- despite members' pivotal role in setting the tone, they do not make the top four in council leaders' perceived 'top posts for driving governance'. And one third of respondents admit that they don't have robust arrangements for developing members
- although external alliances are becoming increasingly important in service delivery, 21% of survey respondents are not clear about council roles and responsibilities when working in partnerships.

We have developed tools which allows us to benchmark your AGS and explanatory foreword against your peers and we would be happy to produce a benchmarking pack for you.

Emerging issues and developments

Local government guidance

'Tough Times: Councils' financial health in challenging times'

In November, the Audit Commission published 'Tough times 2012: Councils' financial health in challenging times.' This is the second report it has produced looking at how councils are dealing with the issues from the Spending Review and focuses on the financial health of councils.

The report finds that councils generally delivered on their planned savings, however, auditors reported that signs of financial stress were visible.

Challenge question:
•Have you considered the findings of the report and any actions required?

'Protecting the public purse 2012'

In November, the Audit Commission published 'Protecting the public purse 2012: Fighting fraud against local government'. The report provides the results of the Audit Commission's annual survey of English local government bodies. It finds that local government bodies are targeting their investigative resources more efficiently and effectively. Local government bodies detected more than 124,000 cases of fraud in 2011/12 totalling £179m. It also reports that new frauds are emerging in areas such as business rates, Right to Buy housing discounts and schools.

The report includes a checklist for those charged with governance to use to review their counter-fraud arrangements.

Challenge questions:
•Have you considered the findings of the report?
•Are there any issues that could relate to your authority and how are these being dealt with?
•Have you reviewed your existing arrangements for tackling fraud?

If you have any fraud queries, talk to your audit manager to see how Grant Thornton could help.

Emerging issues and developments

Local government guidance

'Auditing the Accounts 2011/12' report

In December, the Audit Commission published 'Auditing the Accounts 2011/12'. The report summarises the results of auditors' work on the financial statements of both principal and small bodies. The key finding in the report is that bodies have improved the quality and timeliness of their financial reporting in 2011/12.

Challenge questions:
• Has your Head Strategic of Finance identified the key risks for the authority in preparing the 2012/13 financial statements?
• Has your Head of Strategic Finance produced a robust and adequately resourced timetable for the production and submission of its 2012/13 financial statements?
• Has this been discussed and agreed with the External Auditors?

'Striking a balance: improving councils' decision making on reserves'

In December, the Audit Commission published 'Striking a balance: improving councils' decision making on reserves.' The report covers the findings from research undertaken by the Audit Commission on the level of reserves that councils hold and the decisions councils make on them.

The report encourages English councils to focus more attention on their reserves. It suggests that management should be providing more comprehensive information on reserves to elected members and councils should provide greater clarity on the reasons for holding reserves. The report includes questions for elected members that will help them in their decision making and scrutiny roles.

Challenge questions:
• Are your officers providing you with the right information about reserves?
• Have you considered the findings of the report and identified where actions are required?

Grant Thornton

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PART A

Report to: Audit Committee

Date of meeting: 13th March 2013

Report of: Head of Strategic Finance

Title: Treasury Management Update Report

1.0   SUMMARY

1.1   This report provides the regular review of the Council's Treasury Management Strategy and investment performance.

2.0   RECOMMENDATIONS

2.1   That the Committee notes the report.

Contact Officer:

For further information on this report please contact: Bernard Clarke, Head of Strategic Finance, telephone extension: 8189 email:
bernard.clarke@watford.gov.uk

3.0   Background

3.1   The United Kingdom has lost its much prized triple AAA status with one of the credit rating agencies (Moody's, which has however put the UK on a 'stable' rating which makes it unlikely any further down grade would occur for at least 18 months). The other two main credit rating agencies (Fitch and Standard & Poors) will probably follow suit in the near future. Only Germany and Canada now have a triple AAA credit rating throughout the World.

3.2   The downgrade to AA1 was anticipated to cause a run on sterling with predictions that it would reach parity with the Euro (currently 1.15 Euros to the £); and with a large fall against the dollar (currently 1.50 dollars to the £). Contrary to the Bank of England's perceived 'wisdom' a fall in the £ would not be good news. Mervyn King has consistently talked down sterling over the past three years with little or no effect upon an increase in the UK's export performance. The downside of course is that most raw materials / utility costs are all paid in dollars and will therefore increase the cost to consumers.

3.3   The markets initially reacted negatively when they opened on Monday 25th February with falls against the two major currencies. Then along came the Italian Election which to some extent has saved the UK's bacon.

3.4   The uncertainties within the Euro zone that had abated have re-surfaced as a consequence of the Italian general election result where the majority of seats were won by 'anti-austerity' parties. The two leaders of these parties, Beppe Grillo and Silvio Berlusconi have threatened to pull Italy out of the euro currency block and reinstate the lira. The previous 'technocrat' prime minister imposed on Italy by Brussels & Berlin, Mario Monti, polled a miserable 9% of the vote and is totally discredited.

3.5   Berlusconi (who won the majority of seats in the Upper House, the Senate), has stated…'A deal with Monti is impossible. His austerity policies have put the Country into a dangerous recessionary spiral, with rising debt and unemployment, and the closure of a thousand firms a day.'….

3.6   The threat to pull Italy out of the euro is not necessarily 'tub thumping' as Italy is one of the few countries that could potentially survive very well outside the euro zone. It has low private debt and 9 trillion euros of private wealth. Its total debt level is lower than France, the UK, the US or Japan and its budget is in near primary balance (and was in surplus before 'austerity').

3.7   On the downside however it needs to refinance 420billion euros of debt in 2013 where it is suffering by having to pay 3.30% more in borrowing costs than Germany (and traders anticipate the election result uncertainty will raise this to 4%).

3.8　　　The great fear is that the European Central bank will find it impossible to prop up the Italian bond market under its blanket 'Outright Monetary Transactions' scheme if the Italian Government is unwilling to continue to follow the Brussels/ German diktat of more austerity. The fear of contagion is being priced in by the markets and as a consequence, the UK has escaped (for now) an increase in its own borrowing costs as it continues to enjoy safe haven status.

3.9　　　The United States has arrived at its 'monthly' crisis as it has yet to resolve the political impasse between tax increases and expenditure cuts and is currently reducing expenditure within the public sector as a short term expedient. This is only a sticking plaster however and a proper future strategy needs to be hammered out.

3.10　　The UK has its own 'challenge' coming up in the near future with much attention focussed upon the Chancellor's Budget on 20th March. Prior to that, the Bank of England's Monetary Policy Committee meet on 7th March and may well inject a further £25 billion into its (now) discredited Quantitative Easing project which, apart from having increasingly limited effect upon lending, actually puts pressure on inflation and is steadily causing critical problems for the UK Pensions Funding industry through deteriorating investment returns.

3.11　　The United Kingdom would appear to have failed to protect banking institutions in the UK from pay and bonus controls even where staff are located outside the euro zone area. This resulted from a late change of heart by Germany and it is feared will encourage major banks to relocate outside the euro zone area altogether. The greatest victim should this occur would be the United Kingdom.

4.0　　　The Council's Current Investment Strategy

4.1　　　The Council's strategy gives priority to the security of its assets before seeking a high interest rate return. The current relative calm had encouraged the Portfolio to have a longer maturity profile of between 3 to 6 months.

4.2　　　The current returns on offer are truly depressing as the information below indicates:

	1month %	3 months %	6 months %	9 months %	12 months %
Barclays	0.30	0.38	0.52	0.67	0.80
Lloyds	0.40	0.70	0.80	0.95	1.10
Santander	0.43	0.48	0.60	0.79	0.88
Leeds BS	-	-	0.50	0.69	0.76
Skipton BS	0.40	0.43	0.65	0.75	0.95

4.3   Information from the Council's Treasury advisers, Sector, indicate this same profile exists even should the Council wish to use highly credit rated foreign banks (always assuming they wish to accept relatively small investment deposits). The Council could of course access Russian banks where I am informed the going rate is 11%, but this is not a course I am recommending !

4.4   Two deposits are due back on 4/5th March. Both from Barclays (one of which paying 1.82% reflects just how much the 'market' has changed) and we will effectively just 'tread water' with £2m going back out to Barclays for 3 months @ 0.38%; and another £2m being placed with Nationwide @ 0.44%.

4.5   The Council's current investment portfolio is attached at **Appendix 1.**

5.0   IMPLICATIONS

5.1   **Financial Issues**
The Head of Strategic Finance comments that the revenue estimates for 2012/ 2013 has assumed £325k of investment interest will be achieved (based upon a 1.3% rate of return). It is anticipated that this will be achieved due to fact that the investment portfolio has been larger than originally anticipated which has offset the fact that the investment return is likely to be closer to 1.15%.

5.2   For 2013/2014, should interest rates continue on their current course then it is unlikely that the £270k investment interest assumed within the Budget will be achieved. This will be reviewed before the next Meeting of the Audit Committee in June.

5.3   **Legal Issues** (Monitoring Officer)

The Head of Legal and Property Services comments that there are statutory limitations governing cash fund investments and all proposals within this report ensure continued compliance.

5.4   **Potential Risks**

Potential Risk	Likelihood	Impact	Overall score
Investment with non approved body	1	3	3
Investment with an approved counterparty that subsequently defaults	1	4	4
Failure to achieve investment interest budget targets	3	2	6
Those risks scoring 9 or above are considered significant and will need specific attention in project management. They will also be added to the service's Risk Register.			

5.5   **Staffing & Equalities**

None Directly

5.6   **Accommodation**

None Directly

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Loan Ref	Lender	Loan Type	Broker	Profile	Fix/Var	Notice	Start Date	Maturity	Principal	Rate
1005	CLYDESDA	D		V	V		06-Apr-10	- -	-3,000,000.00	0.85
1010	NATWESTS	D		V	V		27-Apr-10	- -	-10,000,000.00	0.90
1025	CO-OP	D		V	V	C	01-Jul-10	- -	-3,580,000.00	0.56
1056	BARCLAYS	D	PREB	M	F		06-Mar-12	05-Mar-13	-2,000,000.00	1.82
1059	LLOYDSTS	D		M	F		13-Apr-12	11-Apr-13	-2,000,000.00	3.00
1062	DEUTSCHE	D		V	V	C	25-Jul-12	- -	-3,000,000.00	0.49
1069	COVENTRY	D	TRAD	M	F		10-Sep-12	11-Mar-13	-2,000,000.00	0.82
1071	LLOYDSTS	D		M	F		20-Nov-12	20-May-13	-1,000,000.00	1.35
1072	NATWESTS	D		M	F		21-Nov-12	20-Nov-13	-2,000,000.00	1.50
1073	SANTAND	D		V	V	C	28-Nov-12	- -	-3,000,000.00	1.30
1074	BARCLAYS	D	PREB	M	F		03-Dec-12	04-Mar-13	-2,000,000.00	0.40
1075	LLOYDSTS	D		M	F		15-Feb-13	15-May-13	-2,000,000.00	0.75
									-35,580,000.00	

As At 1/3/2013

APPENDIX 1

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PART A

Report to: Audit Committee

Date of meeting: 13th March 2013

Report of: Senior Auditor

Title: Implementation of Internal Audit Recommendations

1.0   **SUMMARY**

        This is the Internal Audit's regular report on progress with the implementation of Internal Audit recommendations. It provides an update on those recommendations reported to Audit Committee as outstanding in January 2013.

2.0   **RECOMMENDATIONS**

2.1   The contents of the report be noted.

Contact Officer:

For further information on this report please contact: Chris Gamble – Senior Auditor telephone extension 8294 (Watford) or (01923) 727465 (Three Rivers) email: christopher.gamble@watford.gov.uk

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

3.0   **DETAILS**

3.1   Requests for information on progress were sent on 17th January 2013 with a deadline of 1st February 2013. The majority of responses were received by that deadline.

3.2   The table summarises progress in implementation of the recommendations for 2010/11, 2011/12 and 2012/13 to date.

Year	Total Recommendations. made	Implemented	Not yet due	Request for extended time	Outstanding	% age Implemented
2010/11	213	203	0	10	0	95
2011/12	114	98	8	8	0	86
2012/13	2	1	0	1	0	50

3.3   The 10 requests for extended time for 2010/2011 audits are broken down as
        follows (the page numbers in brackets relate to the corresponding page of
        Appendix 1 which details all current recommendations):

- IT Service Desk/Change Management = 2 (page 1-3)
- Asset Management = 1 (page 7-8)
- IT Remote Working = 7 (page 9-15)

3.4   The 8 requests for extended time for 2011/2012 audits are broken down as follows:

- IT Project Management = 1 (page 16)
- IT Asset Management & Virus Protection = 4 (page 19-21)
- NNDR = 1 (Page 23)
- Council Tax = 1 (Page 24)
- Income management systems = 1 (Page 27)

3.5   One request for extended time for 2012/13 audits for IT Server Virtualisation =
        1(see page 30).

3.6   **Internal Audit Reports for 2012/2013**

        Final reports have been issued for the Closure of 2011/12 Accounts, Emergency
        Planning (Olympics Readiness), West Herts Crematorium, and Data Transparency
        audits.

        The Cybercrime, Data Protection, Carbon Management, Partnerships and Risk
        Management audits are at draft report stage.

        The managed audits for FMS Reconciliations, FMS Journals and Internal transfers,
        Benefits Administration, Sundry Debtors, Creditors, Council Tax, Income Collection
        and NNDR have been allocated and are currently at fieldwork phase. The
        Payroll/Expenses Audit has been allocated to Deloitte & Touche and is in the
        planning stage.

3.7   Appendix 1 provides the detail of the current status of recommendations reflecting
        responses to the follow up exercise conducted in February 2013.

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
Progress in implementing Internal Audit recommendations is not monitored, recommendations are not implemented and as a consequence, internal controls are weakened.	1	3	3

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.

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Audit Plan 2010/2011

IT Service Desk and Change Management Audit							
Final report issued March 2011							
Ref No.	**Recommendation**	**Priority**	**Action to Date**	**Responsibility**	**Deadline**	**Resolved ✗ or ✓**	**Revised Deadline**
01	The Service Catalogue should be updated and finalised to ensure it contains a listing of all the current services being provided by ICT. Once finalised, the Service Desk contact details and fault reporting procedures should be made available to all Watford and Three Rivers staff on the intranet.	Important	Position (August 2011) This work has been placed on hold and priority has been given to other work streams and projects. ICT is currently conducting an options appraisal of alternative models of service delivery, which may mean that staff interact with the service desk differently from 1 Oct 2012. Position (February 2012) As at August 2011 above. Position (June 2012) Update regarding IT Tender is that any potential transition to an outsourced provider would be early 2013. Position (August 2012) No change from June update Position (November 2012) The councils are currently conducting due diligence with the preferred supplier for the ICT Service. Outstanding audit recommendations will be discussed during due diligence and reported to the next Audit committee meeting. **Position January 2013** **Provision of a Service Request Catalogue is part of the Capita proposal. This will define services and items that can be ordered by the Councils users.**	Head of ICT/ICT Client Manager	June 2011	✗	On hold **May 2013**

IT Service Desk and Change Management Audit							
Final report issued March 2011							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✘ or ✓	Revised Deadline
			The interface to Service Desk will be documented and published during Transition, and strictly adhered following Service Commencement.				
03	Management should review the priority settings and the associated response times within the LanDesk system to ensure that they correspond to the defined agreed SLA. Management should ensure that procedures and processes are documented to escalate calls to Service Desk management when the incident is approaching the SLA to help identify if remedial action is required.	Important	To be investigated and rectified. Position (May 2011): This has been investigated. Remedial work to correct this will form an outcome once the existing Touchpaper system is upgraded in early June 2011. Position (August 2011) The LANDesk system was upgraded in July 2011 but further work has been placed on hold and priority has been given to other work streams and projects. ICT is currently conducting an options appraisal of alternative models of service delivery, which may mean that staff interact with the service desk differently from 1 Oct 2012. Position (February 2012) As at August 2011 above. Position (June 2012) Update regarding IT Tender is that any potential transition to an outsourced provider would be early 2013. Position (August 2012) No change from June update	Head of ICT / ICT Client Manager	June 2011	✘	On hold *May 2013*

IT Service Desk and Change Management Audit

Final report issued March 2011

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
			Position (November 2012) The councils are currently conducting due diligence with the preferred supplier for the ICT Service. Outstanding audit recommendations will be discussed during due diligence and reported to the next Audit committee meeting. ***Position January 2013*** ***Capita's proposal includes the implementation of a replacement ServiceDesk solution (see 5 Solution Overview section 2.2/2.5/2.7)*** ***Capita's Service Desk, Incident Management and Change Management processes ensure that all related SLAs are strictly monitored in real-time and reported at month-end, with underlying trends analysed via Problem Management.***				

NOTE: Items in Bold Italics represent updates since the last report to Leadership Team/Audit Committee

	Health & Safety Follow Up						
	Final report issued November 2010						
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
5.4.26	Effective systems for storing and accessing evidence of the performance of statutory health and safety related inspections and assessments of operational buildings; plant and equipment should be agreed and implemented as a matter of urgency.	HIGH	November 2010. Responsibility of Legal & Property Services. H&S Advisor to comment on via risk based audits Update December 2011 Site logs currently being rolled out by Buildings and Projects. Asset Management Database still progressing following a number of data capture issues. All current legislative compliance requirements are managed in site logs or relevant contract file . Where possible electronic files have been created for viewing or web links created for on line access. New asset database is now not likely to be ready in the very near future. Update Jan 2012. New asset management database modules for Asset Assessment will be commenced by end of financial year. Design of this module will enable the recording of essential data to ensure compliance under a central depository. Additional features are already being tested to deliver plant & equipment monitoring facilities with improved drawings and visual aides/unique referencing methods . Position May 2012 Risk Management Policies for control of Asbestos, Control of Legionella, Control of Fire are all now complete and adopted by the Authority. Site logs are all completed and will be distributed during a training session to building managers (during Q1 2012/13 subject to availability of managers). All hard copy files have now been scanned and are ready for input into the Atrium Asset Management Database. (human resource dependant	Health & Safety Advisor/ Buildings and Projects Team	November 2010. (via risk based audits)	✗ (Partly resolved)	Position to be reviewed again in March 2012 June 2012

Health & Safety Follow Up

Final report issued November 2010

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✘ or ✔	Revised Deadline
			possible option to front load as required). On line accessibility now exists for Asbestos and Portable Appliance Testing compliance. All other statutory requirements are held electronically in Buildings and Projects awaiting input into new asset management database. Final Phase of the project that will allow this information to be accessed by all has commenced and a meeting with the service provider has been scheduled for 30 May to scope the final requirements for delivery of this module. A new spreadsheet for capturing roles and responsibilities for WBC & Tenants Operators has been drafted and circulated to majority portfolio stakeholders for comment. Includes all statutory requirements for avoidance of doubt. Implementation to commence Q2 2012/13 once final layout approved. Position (August 2012) Statutory Data is held in Buildings & Projects. Copies of relevant data is included in the building site logs that have been distributed. All outstanding actions from the H&S Audit for Buildings & Projects have been completed and signed off. Roles & Responsibilities Spreadsheet has been handed to the Property Section for population. Asset Management Database is in final Preparation Stage for accessing stored statutory information but has had to be deferred pending delivery of other Key Authority Projects. Continuation of the Asset Management Database will take place in September 2012 which is still in-keeping with previous update.			✘ (Partly resolved)	July – September 2012

NOTE: Items in Bold Italics represent updates since the last report to Leadership Team/Audit Committee

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline

Health & Safety Follow Up

Final report issued November 2010

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
			Position November 2012 Phase Four of Asset Management System has been scoped and awaiting implementation following sign off for the other phases. Front Loading of asset information continues ad hoc by the Property Team as agreed within the Project Steering Group. R&M function is fully operational and auditable. CAD & Asset data is in a pilot test system being evaluated before rolling out across the portfolio as part of phase four works. Works progress as resources allow but this is a long term project requiring several years of investment. Deadline for review as indicated right. ***Position Feb 2013*** ***All compliance Data exists and is accessible within the section. Electronic files are located within the department and are available on request. The Authority is now seeking to further refine the process through a partnership contract if proven to be commercially viable. Completion of this procurement is 31 Mar 2014. Recommend this item is viewed as resolved.***			✗ (Partly resolved) ✓	March 2013 (Not yet due). ***February 2013***

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	Asset Management						
	Final report issued March 2011						
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
5.4.7	There should be detailed procedures in place for administering the fixed asset registers.	High	Agreed The procedures will be compiled to take account of the IFRS standard. The IFRS compliant module was installed late in the closing of accounts process. Existing assets have been updated on the system, but no new assets have yet been added New assets acquired during 2010/11 will be added to the register during the 2011/12 financial year. Procedures will be written as the asset register is updated. Position February 2012: This is the first full year with a fully operational integrated fixed asset module. Fixed asset / capital procedure notes will be prepared during the 2012 closing period as the work is undertaken. Proposed Revised Deadline July 2012 Position May 2012: Closing of accounts in progress. Deadline remains July 2012. Position August 2012: General procedures can be documented, but detailed procedures relate to the screens in the Financial Management System (FMS). The FMS is being upgraded, going live with version 4.1 on 20 August. Detailed procedures will be written with reference to the upgraded version.	Finance Manager	June 2011	✗ (Partly resolved)	July 2012 October 2012 November 2012 *July 2013*

NOTE: Items in Bold Italics represent updates since the last report to Leadership Team/Audit Committee

Asset Management							
Final report issued March 2011							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✖ or ✓	Revised Deadline
			Position November 2012 A bug in the fixed asset module has further delayed the implementation of this recommendation. It was has fixed in October 2012, and procedures will be written by the end of November. ***Position January 2013*** ***Changes to the Asset Register are infrequent and mostly confined to year end accounting entries. Testing has been done on the new version and notes written for those procedures that required testing. The remainder will be written at the year end, with appropriate screen shots, as the accounting entries are carried out.***				

NOTE: Items in Bold Italics represent updates since the last report to Leadership Team/Audit Committee

IT Remote Working 2010/2011							
Final report issued January 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
01	A remote working policy and procedures should be developed. This should include all areas pertaining to remote working.	Important	To be included within the IT Security Policy and Handbook for both WBC and TRDC. Position June 2012 This has been delayed due to staff workload relating to the IT tender. Position (August 2012) No change from June update Position (November 2012) No change from August update **Position January 2013** **Capita can help with advice on this but the responsibility for this lies with the Council's Head of ICT or ICT Client Managers.**	Head of ICT/ICT Client Manager	March 2012	✗	December 2012 **May 2013**
02	All remote users should be issued with Terms and Conditions of Use for any laptops and mobile phone devices and should be required to confirm that they have read, understood and agree to comply with the stated policies.	Minor	ICT will define the terms and conditions of use for laptops and mobile phone devices. Mobile phones are not within the remit of the ICT Shared Service, this will need to be managed by the relevant officer within each council. Position (February 2012) • WBC T&C for mobile phone usage has been completed and sent out to all mobile phone users. • T&C for all laptops and TRDC Mobile phones is pending. Position June 2012 This has been delayed due to staff workload relating to the IT tender.	Head of ICT / ICT Client Manager (T&C for laptops) Helen Smith (WBC Mobile phones Phil King (TRDC mobiles)	March 2012	✗ (Part resolved)	December 2012 **May 2013**

	IT Remote Working 2010/2011							
	Final report issued January 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
			Position (November 2012) No change from August update				
			Position January 2013 ***Capita can help with advice on this but the responsibility for this lies with the Council's Head of ICT or ICT Client Managers for the laptops and Helen Smith\Phil King for mobile phones.***				
03	Management should ensure that the risks associated with home and offsite working have been assessed and addressed within the Corporate and ICT risk registers. This should include in particular the increased risk of breaches in data security and confidentiality when Council information is accessed away from offices through loss, theft or mishandling. In particular the increased risk of breaches in data security and confidentiality when Council information is accessed using non-Council equipment should be evaluated and any necessary countermeasures developed.	Important	A risk assessment as described will be carried out and identified risks will be recorded within the service risk register. However, it should be noted that the councils acknowledge that data can also be lost via attachments within emails and paper documents being mishandled, lost or stolen. Position June 2012 This has been delayed due to staff workload relating to the IT tender. Position (August 2012) No change from June update Position (November 2012) No change from August update ***Position January 2013*** ***Risk of data loss have been included in the latest ICT Service Plan and were approved JSSC in November.***	Head of ICT	March 2012	✓	***December 2012***

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IT Remote Working 2010/2011						
Final report issued January 2012						
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
			2 factor authentication onto a harmonised VPN solution (Appgate) has been implemented and is ready for roll out. *Capita can help with advice on this but the responsibility for this lies with the Council*				
04	A procedure to review leavers and dormant remote access accounts should be developed to ensure that remote access is promptly removed for users on termination of their employment and that all IT equipment or mobile devices are returned to ICT.	Important	Agreed Position (June 2012) Service desk act on notifications from HR related to leavers. A more formal process is currently being worked on. This has been delayed due to staff workload relating to the IT tender. Position (August 2012) No change from June update Position (November 2012) Work is currently being carried out to cleanse the active directory of old accounts. The councils are currently conducting due diligence with the preferred supplier for the ICT Service. If outsourced, the supplier will have processes and procedures in place for this. **Position January 2013** *The Capita ServiceDesk will provide a service to suspend/remove dormant accounts once informed by the Council via a Service Request. It is assumed that the Active Directory is clean on Service Commencement.*	Head of ICT / ICT Client Manager	March 2012	✗	December 2012 *May 2013*

IT Remote Working 2010/2011

Final report issued January 2012

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
			Ref.5 Solution Overview section 2.7.1.“The Request Fulfilment process will facilitate the delivery of low risk, low cost and frequently occurring standard operational changes that are documented, repeatable and will have been previously implemented. *Typical examples include day to day administrative tasks, for example to cater for new users and leavers […]Capita will agree the types of Change that can be handled through the standard Service Requests and finalise the relevant Request Fulfilment processes with the Councils during Transition.”* *The process for this will be defined during transition.* *The return/re-allocation of IT equipment will be defined during transition as part of the Change and Asset Management processes as defined in Section 8 Schedule 4.1 Statement of Work Item 3.4 Assets.*				
05	The ICT Shared Service should ensure the two-factor user authentication solution is enabled for remote users to gain remote access to the Council networks.	Important	Agreed Position (June 2012): This has been installed and we are in the process of testing this functionality Position (August 2012) Rollout of this functionality is being planned and intended to be in place within the deadline.	Head of ICT / ICT Client Manager	June 2012	✗	December 2012 *May 2013*

IT Remote Working 2010/2011							
Final report issued January 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✘ or ✓	Revised Deadline
			Position (November 2012) No change from August update ***Position January 2013*** ***Two factor authentication has not been rolled out but is planned to be completed before service commencement with Capita.***				
09	Management should ensure that security settings on mobile device handsets such as iPhones enforce the following settings: • Devices should be required to be protected by a power on password or PIN. Any default passwords or PIN codes need to be changed on first use, these should not be removed unless authorised in writing by ICT; • Devices should be set to 'Non-discoverable' or 'Hidden' to help prevent information disclosure by short distance data transfer; and • Users should be restricted from reconfiguring the security settings on devices. The remote wipe solution should be investigated to ensure all the data stored on the mobile phone can be wiped either remotely or by exceeding	Important	Agreed. Government Code of Connection stipulates that they have only approved Blackberrys for use as mobile devices. There are currently more critical priorities to address within ICT and this is where the focus will lie. The implementation of a Blackberry Enterprise Server will address the above recommendation and will be identified as a future project for the ICT Service. Position (August 2012) Due to the large resource and investment required with this, it will be assigned a priority once the future of the ICT Shared Service is known. Position (November 2012) The councils are currently conducting due diligence with the preferred supplier for the ICT Service. Outstanding audit recommendations will be discussed during due diligence and reported to the next Audit committee meeting.	ICT Client Manager	March 2013	✘	March 2014

**IT Remote Working 2010/2011**
Final report issued January 2012
Ref No.	**Recommendation**	**Priority**	**Action to Date**	**Responsibility**	**Deadline**	**Resolved** ✘ or ✓	**Revised Deadline**
	the login threshold. Management should ensure that only ICT approved mobile devices should are procured and issued and all confidential and sensitive data held on mobile device handsets such as iPhones is adequately encrypted according to the sensitivity of the data		*Position January 2013* *Mobile telephony is outside the proposal. Implementation of a Blackberry solution which can provide all of these requirements has been included as part of 13/14 project requirement and will be discussed during transformation.*				
10	Data stored on returned laptops or mobile devices should have all data removed prior to issuing the device to another user.	Minor	Agreed Position (June 2012) New (and some old) laptops are configured to not allow the user to save information locally. If there is a requirement to save data offsite, users are given encrypted memory sticks for use. There is a wider desktop replacement and re-configuration project required to complete this fully. This is a large piece of work and would need to be prioritised in line with other priorities Position (August 2012) No change from June update Position (November 2012) No change from August update *Position January 2013* *This will be undertaken as defined in Section 8 Schedule 4.1 Statement of Work Item 3.4 Assets (3.4.40 and 3.4.43), the exact processes to be defined and agreed during Transition.*	Head of ICT / ICT Client Manager	March 2012	✘ (partly met)	March 2014 *May 2013*

IT Remote Working 2010/2011

Final report issued January 2012

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
11	The ICT Shared Service should ensure that any laptops issued to remote users are configured to receive Operating System and anti-virus updates	Important	Agreed Position (June 2012) Laptops are configured to receive windows updates. New laptops are configured to receive anti-virus updates, however this only occurs when the laptops are plugged into the Council network. Finalising this work would tie into the wider desktop project as per ref 10 above. Position (August 2012) No change from June update Position (November 2012) No change from August update **Position January 2013** **Capita would expect the Council project to be completed prior to service take-on. Capita will provide OS and AV updates as per Section 8 Schedule 4.1 Statement of Work Item 3.2.8** **Any new laptops issued post Service Commencement will be configured for OS and AV updates.**	Infrastructure Manager	March 2012	✗ (partly met)	March 2014 *May 2013*

Audit Plan 2011/2012

IT Project Management 2011/2012							
Final report issued November 2011							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✖ or ✓	Revised Deadline
02	An IT Strategy that supports both Councils' corporate strategies needs to be implemented to direct the forward usage of ICT within both Councils and the Shared Service. An IT strategy should be developed in consultation with the business strategies for both Councils and the Shared Service to ensure that IT development links into corporate priorities.	Minor	Agreed Position (August 2012) This has not progressed due to resource constraints caused by work on the ICT Outsourcing Position (November 2012) The councils are currently conducting due diligence with the preferred supplier for the ICT Service. The decision to outsource will have a large impact on the strategy. **Position January 2013** **Capita can help with advice on this but the responsibility for this lies with the ICT Client Manager roles which are currently being advertised at both councils**	Head of ICT / ICT Client Manager	October 2012	✖	March 2013 **May 2013**

	Money Laundering 2011/2012						
	Final report issued January 2012						
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
4.1.14	A training session should be arranged in conjunction with Three Rivers District Council to ensure that key staff that need to be given further in-depth training are trained.	Medium	Garry Turner/Nigel Pollard are drafting a new harmonised policy for TRDC and WBC which will include a new reporting form. The remaining recommendations will be addressed once these Policies have received approval. Position May 2012 We have drafted policy just need to finalise and circulate. Position August 2012 Just amending Bribery act on E learning before issuing Position November 2012 – Updates created but new E Learning platform Vine will not be launched until January 2013. The new platform is an enhanced tool and will provide more functionality for users.	Bernard Clarke, Head of Strategic Finance	End of June 2012	✗	October 2012 February 2013 *(Not yet due*
4.1.15	Refresher training should then be arranged for all key staff especially within 'CSC' and 'Revenues and Benefits' at regular intervals (e.g. every two years) to ensure that understanding of the practical requirements of the Money Laundering legislation remains current.	Medium	Garry Turner/Nigel Pollard are drafting a new harmonised policy for TRDC and WBC which will include a new reporting form. The remaining recommendations will be addressed once these Policies have received approval Position May 2012 We have drafted policy just need to finalise and circulate. Position August 2012 Just amending Bribery act on E learning before issuing Position November 2012 – Updates created but new E Learning platform Vine will not be launched until January 2013. The new platform is an enhanced tool and will provide more functionality for users.	Bernard Clarke, Head of Strategic Finance	End of June 2012	✗	October 2012 February 2013 *(Not yet due*

NOTE: Items in Bold Italics represent updates since the last report to Leadership Team/Audit Committee

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✘ or ✔	Revised Deadline
	Money Laundering 2011/2012						
	Final report issued January 2012						
4.1.26	Guidance should be issued by the MLRO to the Revenues Service to explain the process for dealing with cases where refunds are requested by consistent over-payers.	Medium	Garry Turner/Nigel Pollard are drafting a new harmonised policy for TRDC and WBC which will include a new reporting form. The remaining recommendations will be addressed once these Policies have received approval Position May 2012 We have drafted policy just need to finalise and circulate. Position August 2012 E learning training will address this query. Just updating bribery act before issuing revised E learning Position November 2012 – Updates created but new E Learning platform Vine will not be launched until January 2013. The new platform is an enhanced tool and will provide more functionality for users.	Bernard Clarke, Head of Strategic Finance	End of June 2012	✘	October 2012 February 2013 *(Not yet due)*

IT – Asset Management and Virus Protection 2011/2012

Final report issued August 2012

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
01	An IT Asset Management Policy should be developed to define the objectives, scope, and resource requirements for IT Asset Management. Additionally, procedures for the management of all physical IT assets owned by the Council from procurement and maintenance to their disposal and destruction should be documented and procedures for performing asset management activities, such as asset identification, control, status accounting, auditing and analysing assets should be defined for all staff involved in maintaining the asset register.	Important	Partly Agreed. Non-IT equipment is not the responsibility of the ICT Shared Service and will need to be raised with the appropriate managers listed below. Position (August 2012) No progress to report since this report was issued in August 2012 Position (November 2012) No change from August update ***Position January 2013*** ***Asset Management of Council IT assets currently controlled by the council ICT Department will be undertaken as defined in Section 8 Schedule 4.1 Statement of Work Item 3.4 Assets, the exact processes to be defined and agreed during Transition.***	Head of ICT / ICT Client Manager	December 2012	✗	***May 2013***
03	Management should perform a review of all assets recorded within the Asset Register to help ensure that the data input is up-to-date, complete and accurate. The following details should in particular be recorded for all assets to facilitate monitoring and tracking of all IT hardware and software.	Important	Agreed Position (August 2012) No progress to report since this report was issued in August 2012. It may be most practical to do this during the transition phase if the service is to be outsourced. Position (November 2012) No change from August update	Avni Patel Head of ICT	December 2012	✗	***May 2013***

NOTE: Items in Bold Italics represent updates since the last report to Leadership Team/Audit Committee

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline

IT – Asset Management and Virus Protection 2011/2012

Final report issued August 2012

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
			Position January 2013 ***The councils have agreed to ask Capita to do this during the transition period during a change freeze period.***				
06	The Shared Service should ensure that printers and scanners are recorded on the Asset Register.	Important	Agreed Position (August 2012) No progress to report since this report was issued in August 2012. It may be most practical to do this during the transition phase if the service is to be outsourced. Position (November 2012) No change from August update ***Position January 2013*** ***The councils have agreed to ask Capita to do this during the transition period during a change freeze period.*** ***Asset Management of Council IT assets currently controlled by the council ICT Department will be undertaken as defined in Section 8 Schedule 4.1 Statement of Work Item 3.4 Assets, the exact processes to be defined and agreed during Transition.***	Head of ICT / ICT Client Manager	August 2012	✗	***May 2013***

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✘ or ✔	Revised Deadline

IT – Asset Management and Virus Protection 2011/2012

Final report issued August 2012

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✘ or ✔	Revised Deadline
08	The Shared Service should develop procedures to ensure that when IT assets are no longer required that they are marked as disposed of on the asset register. Equipment that is physically destroyed either in house or by a third party should be periodically reconciled to the Asset Register to ensure that all hardware has been securely disposed.	Important	Agreed Position (August 2012) No progress to report since this report was issued in August 2012 Position (November 2012) No change from August update **Position January 2013** **Asset Management of Council IT assets currently controlled by the council ICT Department will be undertaken as defined in Section 8 Schedule 4.1 Statement of Work Item 3.4 Assets. Disposal and de-commissioning are defined in items 3.4.35 through 3.4.43.**	Head of ICT / ICT Client Manager	December 2012	✘	*May 2013*

NOTE: Items in Bold Italics represent updates since the last report to Leadership Team/Audit Committee

Recruitment 2011/2012							
Final report issued August 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
4.3.14	WBC and TRDC should review the potential benefits of using the Hertfordshire County framework for procurement of agency staff.	Medium	Position (August 2012) Agreed. The County framework should be signed by September and a presentation will then be made to District Heads of HR to see who wishes to use the new framework. HR will review at that stage. Position November 2012 A meeting has been held on 8 November with CMS the new County provider. A further review will be conducted with Comensura, WBC's current provider and then a recommendation submitted to Leadership Team/Management Board for consideration. Agreement needs to be reached by January 2013 if a new provider is to be appointed by April 2013 **Position January 2013 Comensura contract has been extended and can run for up to 2 years from Nov 2012, subject to 6 months notice. Further discussions to take place at Leadership Team and Management Board in April 2013.**	Cathy Watson, Human Resources Manager	End of March 2013. *(Not yet due)*	✗	

NNDR 2011/2012							
Final report issued							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
5.5.2	Staff should be made aware of their obligations regarding money laundering in relation to NNDR.	High	Agreed The Revenues Manager will ensure that this is covered at a future team brief.	Revenues Manager	31st January 2013	✓	
5.5.5	Management should ensure that all relevant staff use the E-learning training tool on money laundering to ensure that they keep up-to-date with the issues which relate to this area and comply with the Councils policy and procedure.	Medium	Agreed The Revenues Manager will instruct staff by e-mail and at Team Briefings to use the E-learning training tool. **_Position January 2013_** **_Waiting on a new e-learning package to be rolled out by HR. Expected delivery by end of February 2013._**	Revenues Manager	31st January 2013	✗	**_February 2013_**

NOTE: Items in Bold Italics represent updates since the last report to Leadership Team/Audit Committee

Council Tax 2011/2012

Final report issued September 2012

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✘ or ✓	Revised Deadline
5.3.6	Empty property relief should only be granted where supported by sufficient evidence i.e. on receipt of adequate signed documentation from the taxpayer confirming if the empty property is unfurnished and uninhabitable or inspection of the property by an officer.	High	Agreed This area will be subject to future legislative changes.	Revenues Manager	31st January 2013	✓	
5.6.2	Staff should be made aware of their obligations regarding money laundering in relation to Council Tax (High).	High	Agreed The Revenues Manager will ensure that this is covered at a future team brief.	Revenues Manager	31st January 2013	✓	
5.6.5	Management should ensure that all relevant staff use the E-learning training tool on money laundering to ensure that they keep up-to-date with the issues which relate to this area and comply with the Councils policy and procedure	Medium	Agreed The Revenues Manager will instruct staff by e-mail and at Team Briefings to use the E-learning training tool. ***Position January 2013*** ***Waiting on a new e-learning package to be rolled out by HR. Expected delivery by end of February 2013.***	Revenues Manager	31st January 2013	✘	***February 2013***
5.3.2	Taxpayers who receive discounts and exemptions should be sent review letters regularly to confirm if they are still entitled to the relief granted.	High	Partially implemented This area has been risk assessed and the service have reviewed single person discount using a company called Data tank who issued review letters to taxpayers they believed were most likely not to still be entitled to discount; so that the taxpayer would confirm whether they were still entitled to the discount granted. The Auditor was informed that for students, disabled and taxpayers with second homes annual review letters have been sent out. However not all areas where taxpayers receive discount or exemptions have had annual	Revenues Manager	31st March 2013	✓	

NOTE: Items in Bold Italics represent updates since the last report to Leadership Team/Audit Committee

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline

Council Tax 2011/2012

Final report issued September 2012

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
			review letters sent out. The above outstanding areas will be addressed on risk basis during the current financial year.				
5.5.2	There should be regular reviews carried out to identify credit balances to ensure that refunds where applicable are processed.	High	Partially implemented The Auditor was informed that reviews of credit balances are constantly being undertaken. However it is recognised by the Revenues Manager that more work needs to be carried out in this area.	Revenues Manager	31st January 2013	✓	
5.6.2	The access requirements to the Academy system for all staff should be developed in line with an access policy, so that the level of access for staff at different levels could be applied as a standard profile. Also there should be a formal systems put in place which require a standardised form to be completed and authorised by the Revenues Manager when officers are set-up on the system, access rights are amended and user accounts are deleted in the event of staff leavers.	Medium	Partially implemented The Revenues and Benefits Service is conducting a full review of system access and security, which will be also linked to enhancements in user access to be in release 63 by Capita for Academy. The Head of Revenues and Benefits has compiled a System Access Policy regarding this area.	Revenues Manager	31st January 2013	✓	
5.6.5	Regular reviews of access rights should be carried out by matching job functionalities of officers to their access permissions. This check should be evidenced for Management review purposes.	High	Partially implemented The Revenues and Benefits Service is conducting a full review of system access and security, which will be also linked to enhancements in user access to be in release 63 by Capita for Academy. The Head of Revenues and Benefits has compiled a System Access Policy regarding this area.	Revenues Manager	31st January 2013	✓	

NOTE: Items in Bold Italics represent updates since the last report to Leadership Team/Audit Committee

Housing & Council Tax Benefit Administration Systems 2011/2012							
Final report issued September 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
4.8	The access levels stated in the "System Access Guidance_SS_280512" policy document should be applied to all Benefits staff using the Academy system to ensure consistent access to the system appropriate to staff grade at the earliest opportunity.	MEDIUM	Agreed. This will be implemented as part of the roll out of the Atlas module on the Academy system which will require revised access permissions to be set for all staff.	Benefits Manager (JW) Quality, Training & Performance Team Leader (KG)	November 2012	✓	

Financial Procedure Rules 2011/2012							
Final report issued September 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
4.1.15	FPRs should then be reviewed on a regular basis – at least every 2 years - and updated to reflect any changes made to other policies within the council that ensuring consistent message is being given to staff.	Medium	*Position January 2013 –* *The FPR's for both councils have been scheduled in one document and respective s151 Officers will agree style for a harmonised approach.*	Alan Power, Head of Finance Shared Service	End of March 2013. *(Not yet due)*	✗	
4.1.18	FPRs, as part of the WBC Constitution, should be included as part of the staff induction process.	High	*Position January 2013* *This has been actioned and is now included in the Departmental Induction checklist provided by HR for managers to complete when they have new starters.*	Terry Baldwin, Head of Human Resources Shared Service	End of March 2013.	✓	

NOTE: Items in Bold Italics represent updates since the last report to Leadership Team/Audit Committee

Financial Procedure Rules 2011/2012

Final report issued September 2012

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
4.1.21	As far as is reasonably practical, whenever financial systems are harmonised between WBC and TRDC, the FPRs for both councils should be updated with the same information to make them consistent and avoid duplication of effort.	Medium		Alan Power, Head of Finance Shared Service	End of March 2013. *(Not yet due)*	✗	

Income Management Systems 2011/2012

Final report issued October 2012

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
5.6.3	The Income Team Leader should carry out regular reviews (at least on biannual basis) of access rights by matching job functionalities of officers to their access permissions. Also there should be formal systems put in place which require a standardised form to be completed by the Service requesting access and authorised by the Income Team Leader when officers are set-up on the system, access rights are amended and user accounts are disabled in the event of staff leavers.	Medium	Agreed Due to a limited number of staff who have access to the system, the Income Team Leader has agreed to review access rights when a member of staff leaves. Also it was agreed that for new staff an electronic authorisation form will be completed. ***Position January 2013*** ***Preparation work has started to fully introduce this recommendation from the 1 April 2013.***	Revenues Manager Income Team Leader	31st January 2013	✗	***April 2013***

NOTE: Items in Bold Italics represent updates since the last report to Leadership Team/Audit Committee

	IT Back up and Disaster Recovery 2011/12							
	Final report issued December 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
01	*The Shared Service should ensure that existing technical DR plans for both Three Rivers District Council and Watford Borough Council are up-dated to take into account changes in the infrastructure, staffing and recovery priorities. Following completion this should be reviewed on an annual basis or after any major system change.*	*High*	**Agreed** **Position January 2013** **Contracts and kit lists for both councils have been reviewed and updated and will continue into the future.** **BC\DR work will be undertaken during transition and transformation.**	*Avni Patel* *Head of ICT*	*March 2013*	✓	
02	*The Shared Service should conduct a risk assessment of the capability to recover key systems and services in the event of a disaster based on the Recovery Time Objectives (RTO) and Recovery Point Objectives (RPO) for Councils' systems. This should ensure that any potential issues that could be faced are documented with appropriate counter measures put in place.*	*High*	**Agreed** **Position January 2013** **This work will be undertaken by Capita during transition and transformation.**	*Avni Patel* *Head of ICT*	*May 2013* *(Not yet due)*	✗	

IT Back up and Disaster Recovery 2011/12

Final report issued December 2012

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
03	*ICT should review its existing support contracts with both ICM and Adam Continuity to ensure that the existing arrangements reflect the current requirements of the Shared Service. Furthermore, as both agreements were entered into prior to the commencement of the Shared Service, opportunities for rationalising the arrangements should be identified. When completed the arrangements with the supplier should be reviewed on an annual basis.*	*High*	**Agreed** **Position January 2013** **Contracts and kit lists for both councils have been reviewed and updated and will continue into the future.** **The contracts will be reviewed again on completion of Capita's transition phase.**	***Avni Patel Head of ICT***	***November 2013***	✓	
04	*The Shared Service should test its DR arrangements on an annual basis at both Adam Continuity and ICM.. Testing should follow a detailed test plan and test results should be reported to management following the test period. We also recommend that where appropriate, ad hoc tests of tape restores are performed when not otherwise tested.*	***High***	**Agreed** **Position January 2013** **A DR test is being planned before the service is transferred to Capita are expected to continue this into the future.**	***Avni Patel Head of ICT***	***March 2013 (Not yet due)***	✗	
05	*The Councils should document their processes for retaining and disposing of backup tapes including the processes to obtain assurance that tapes are tested on a regular basis. A formal written procedure should be implemented for media (tape) retention and disposal.*	***High***	**Agreed** **Position January 2013** **Complete and stored in the ICT knowledge base.**	***Avni Patel Head of ICT***	***February 2013***	✔	

Audit Plan 2012/2013

IT Server Virtualisation (ICT) 2012/13							
Final report issued December 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
01	The adequacy of the security settings and management arrangements established and applied to the virtual environment at both the Councils should be reviewed and where the standards currently are not aligned with best practice standard such as recommended by CIS (Centre for Internet Security), then they should be applied/configured to create a baseline for on-going security and monitored accordingly.	*High*	Agreed The Council is awaiting for capita to respond with their view on outstanding settings. They are planning to virtualise the remainder of servers and move them up to their own data centre within the first year of the contract, which should go live in May 2013. *Position January 2013* *Capita will be moving all servers to their data Centre in Chippenham by December 2013 with new hardware and vmware installations. This recommendation will be incorporated into the design of this implementation.*	Head of ICT / ICT Client Manager	November 2013	✗	*December 2013 (Not yet due)*

PART A

Report to:	Audit Committee
Date of meeting:	13th March 2013
Report of:	Senior Auditor
Title:	Internal Audit Progress Report

1.0   **SUMMARY**

This report and appendices provide updated information on the work undertaken by Internal Audit on the 2012/2013 Audit Plan in the period 1st April 2012 to 15th February 2013.

2.0   **RECOMMENDATIONS**

2.1   The contents of the report be noted.

Contact Officer:

For further information on this report please contact: Chris Gamble – Senior Auditor telephone extension 8294 (Watford) or (01923) 727465 (Three Rivers) email: christopher.gamble @watford.gov.uk

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

3.0 DETAILS

3.1 This report covers the work undertaken by Internal Audit since the last report to Audit Committee in January 2013.
Appendix (1) shows the position on audits from the 2012/13 Audit Plan, including cumulative time taken for the year compared to the time allocated in the annual audit plan.
Appendix (2) shows the local performance measures for 2012/13 to 15th February 2013.

3.2 The work undertaken to 15th February 2013 on the planned audits for 2012/2013 as listed in Appendix 1 has not, at this stage, generated issues that need to be brought to the attention of the Audit Committee, other than as previously reported.

3.3 The departure of the Audit Manager has resulted in a proportion of the audits allocated for 2012/13 to be postponed until 2013/14 or deleted if no longer considered necessary. In planning for this, priority has been given to ensuring that the managed audits (covering the main financial systems) are completed before 31 March 2013.

3.4 The Committee is asked to note that Deloittes & Touche have been allocated 14 days to carry out Payroll/expenses Audit (managed Audit).

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

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.

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**Work Progress on Individual Audits
2012/2013**

Project	Progress as at 15th February 2013	Days Allocated 2012/13	Days Taken 2012/13
2012/13 Audit Plan			
Shared Systems Audits:			
Payroll	Allocated to Deloittes	14	
NNDR	Work In progress	12	7.00
Council Tax	Work In progress	12	7.00
Benefits Administration	Allocated to Deloittes	15	
Creditors (Accounts Payable)	Work In Progress	11	3.9
Debtors (Accounts Receivable)	Work in Progress	11	3.47
FMS - Reconciliations	Allocated to Deloittes	14	
FMS – Journals and Internal Transfers	Allocated to Deloittes	5	
Income Collection	Work In progress	16	9.00
Recruitment – follow up		5	
eFinancials Upgrade		7	
Council Tax Support preparations		5	
Final Accounts 2011/12 preparations	Final Report 25/06/12	5	3.37
Implementation of new ICT arrangements – consultancy/advisory audit	Work In Progress	7	0.90
Online expense claims	Allocated to Deloittes	Included as part of Payroll	
West Herts Crematorium	Final Report 10/08/12	4	7.07
IT – Network Infrastructure (Deloittes)		10	
IT – Virtualisation (Deloittes)	Final Report 12/12/12	12	N/A
IT – Governance (Deloittes)		7	

Project	Progress as at 15th February 2013	Days Allocated 2012/13	Days Taken 2012/13
Watford Audits 2012/13:			
Treasury Management		4.5	
Budget Monitoring		7	
Asset Management and Capital Accounting		6	
Benefits Subsidy Claim		5	
Cyber-crime awareness and prevention	Draft Report Stage	10	2.43
Bribery Act 2010 and Money Laundering		5	
Project and Change Management		6	
Risk Management	Draft Report Stage	5	5.93
Fraud Prevention & Detection Arrangements		8	
Channel Shift Programme		5	
Charter Place Market and Commercial Rent Income		5	
Emergency Planning Processes (Olympics Readiness)	Final Report 20/07/12	5	4.93
Partnerships	Draft Report Stage	5	5.97
Carbon Management	Draft Report Stage	4	6.23
Procurement	Work in Progress	7	7.03
Data Transparency	Final Report 7/2/13	5	5.83
Data Protection	Draft Report Stage	5	5.2
Corporate Governance		5	
Commissioning framework for Community Services – advisory support		5	
Museum – Care of the collection		5	
Housing redesign – advisory support		5	
Colosseum – Post Implementation Review		5	

LOCAL PERFORMANCE MEASURES 2012/2013

Criteria	Target p.a. (as per Audit Plan)	Actual To 15th February 213	Comment
% of annual audit plan achieved.	92%	N/A	This is monitored throughout the year but is not meaningful until towards the year end.
Sickness – average days per employee.	4	3.2	
Training – average days	4	4.2	Time includes internal and external seminars and training. All auditors hold a relevant qualification.

Criteria	Target p.a.	Actual To 15th February 2013	Comment
Final audit reports issued within 10 available working days of agreement to draft report.	100%	100%	
Level of customer satisfaction	94%	99.58%	Based on 3 satisfaction surveys received in respect of 2012/13 to date.

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PART A

Report to: Audit Committee

Date of meeting: 13th March 2013

Report of: Head of Strategic Finance

Title: Internal Audit Plan 2013/2014

1.0 SUMMARY

1.1 Attached is the proposed Internal Audit Plan for 2013/2014.

2.0 RECOMMENDATIONS

2.1 That the Committee approves the Internal Audit Plan attached to this brief introduction.

Contact Officer:

For further information on this report please contact: Bernard Clarke, Head of Strategic Finance, telephone extension: 8189 email: bernard.clarke@watford.gov.uk

3.0   **IMPLICATIONS**

3.1   **Financial Issues**

The Head of Strategic Finance comments that provision has been made within the revenue estimates for 2013/2014 to enable the attached Audit Plan to be completed.

3.2   **Legal Issues** (Monitoring Officer)

The Head of Legal and Property Services comments that there are no legal implications arising directly out of this report.

3..3   **Potential Risks**

Potential Risk	Likelihood	Impact	Overall score
That the Audit Plan will not be achieved during 2013/2014.	2	2	4

3.4   **Staffing**

None Directly

3.5   **Accommodation**

None Directly

Appendix 1: Internal Audit Plan 2013/2014.

Watford Borough Council
Audit Committee

Internal Audit Plan 2013-14 Report

13 March 2013

Recommendation

Members are recommended to approve the proposed Watford Borough Council Internal Audit Plan 2013-14

Contents

Appendices

1. Introduction and Background

<u>Purpose of Report</u>

1.1   To provide the Members with the proposed Watford Borough Council (WBC) Internal Audit Plan 2013-14.

<u>Background</u>

1.2   The WBC Internal Audit Plan sets out the programme of internal audit work for the year ahead, and forms part of the Council's wider assurance framework. It is designed to inform the requirement to produce an audit opinion on the overall internal control environment of the Council, as well as a judgement on the robustness of risk management and governance arrangements, contained in the Head of Internal Audit annual report.

1.3   The new United Kingdom Public Sector Internal Audit Standards (PSIAS) will apply across the whole of the public sector from 1 April 2013. The Terms of Reference for Internal Audit will be updated to reflect the new PSIAS and the transfer of the internal audit function to the Shared Internal Audit Service. This will be captured in an Audit Charter which will be presented to Audit Committee in June 2013.

1.4   The PSIAS require that the audit plan 'must incorporate or be linked to a strategic or high-level statement of how the IA service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities'. Section 2 of this report is provided in order to fulfil this requirement.

2. Audit Planning Process

<u>Planning Principles</u>

2.1   The SIAS Audit Strategy contains eight planning principles which underpin our approach to overall audit planning:

- Focus assurance effort on the most important issues, the key obligations, outcomes and objectives, critical business processes and projects, and principal risks; pitching coverage, therefore, at both the strategic and key operational aspects of the business;

- Maintain up-to-date awareness of the impact of the external and internal environment on the organisation's control arrangements;

- Use a risk assessment methodology to determine priorities for audit coverage based, as far as possible, on management's view of risk;

- Take account of dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs, but recognising, in a resource constrained environment, that there will be situations when not all needs can be met;

- Identify responsibilities for auditing any services which are delivered in partnership;

- Ensure flexibility so that the plan evolves through the year in response to emerging risks and issues;

- Provide for the delivery of key commitments, such as work done in support of the External Auditor and to deliver governance and counter fraud responsibilities;

- Include provision for responding to management requests for assistance with special investigations, consultancy and other forms of advice.

Approach to Planning

2.2 The approach to planning comprises:

- A Chief Financial Officers (CFO) workshop to identify and assess emerging risks and any assurance requirements for these risks. The workshop also identified potential joint reviews that could be conducted across SIAS partners;

- Initial discussions with members of the senior management team and identified key officers within the Council to identify risks, and confirm and complement the results of the CFO workshop;

- Application of a risk assessment approach that reflects management's assessed view of risk as well as the view of Internal Audit. Appendix A shows the risk assessment and audit desirability model which has been used to prioritised proposed audit activity;

- Application of a risk assessment approach that reflects management's assessed view of risk as well as the view of Internal Audit;

- Cross-comparative work across the 2013-14 plans conducted for all partners of the SIAS;

- Preparation and discussion of draft plans.

2.3 Given that this is a transitional year and SIAS does not formally take up its new role until 1 April 2013 there is, at the time of writing, still further work to do to

- Ensure clarification of the requirements of External Audit, and
- Ensure that the plan is widely discussed with all senior managers and finalise the proposed plan, particular in respect of operational audit coverage.

Any amendments to the plan resulting from these further discussions will be advised to the Committee as necessary.

2.4 The aim of our planning approach is to ensure that our work gives assurance on what is important and risky, and by doing so, assist the Council in achieving its objectives.

The Planning Context

2.5 The following considerations have informed the planning process this year:

a) The challenging context for local government, housing organisations and the general governance, risk management, and internal control environment:

- Further funding reductions taking effect;

- Efficiency and transformation programmes altering the nature and structure of Councils;

- Greater transparency and scrutiny of public expenditure.

b) The challenge of giving value in this context, which means that Internal Audit needs to:

- Meet its core responsibilities, which are to provide appropriate assurance to Members and senior management on the effectiveness of governance, risk management and control arrangements in delivering the achievement of Council objectives;

- Identify and focus its effort on areas of significance and risk, assisting the organisation in managing change effectively, and ensuring that core controls remain effective;

- Give assurance which covers the control environment in relation to new developments, using leading edge audit approaches such as 'control risk self assessments' or 'continuous assurance' where appropriate;

- Retain flexibility in the audit plan and ensure the plan remains current and relevant as the financial year progresses.

Internal Audit Plan 2013-14

2.6 The draft plan for 2013-14 is included at Appendix B and contains a high level proposed outline scope for each audit and a suggested quarter for delivery.

2.7 The table below shows the estimated allocation of the total annual number of purchased audit days for the year. Operational audits are subject to further discussion and confirmation and any amendments will be advised to the Audit Committee as necessary.

	Watford BC	Shared Service
Purchased audit days	**148**	**170**
Key Financial Systems	21	118
Operational audits	84	30
Joint Reviews	1	2
Governance & Risk Management	10	0
IT Audits	0	20
Strategic Support*	32	0
Contingency	0	0
Total allocated days	**148**	**170**

* This covers provision of the servicing the Audit Committee, Audit Planning and Annual Reporting and External Audit liaison, along with work to follow up the implementation of agreed audit recommendations.

<u>Internal Audit Plan 2014-15</u>

2.8   During audit planning discussions with the senior managers of the Council the following areas were identified as potential audits for the 2014/15 financial year:

a)   Future IT Strategy
b)   Channel Shift
c)   Introduction of Community Infrastructure Levy
d)   Economic Development Strategy
e)   Effectiveness of arrangements for oversight and governance relating to the Health Campus Development
f)   Review of new election system (for 15/16 financial year)

2.9   The above audit areas will be formally risk assessed for inclusion in the 2014/15 audit plan in 12 months time.

3.   Performance Management

<u>Update Reporting</u>

3.1   The work of Internal Audit is required to be reported to a Member Body so that the there is an opportunity to review and monitor an essential component of corporate governance and gain assurance that the Councils internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan. Progress against the agreed plan for 2013-14 and any proposed changes will be reported to this Committee four times in the 2013-14 civic year.

3.2   The implementation of agreed high priority recommendations will be monitored by Internal Audit and progress will be reported as part of the update reporting process.

<u>Performance Indicators</u>

3.3   Annual performance indicators were approved at the SIAS Board meeting on the 7 September 2011. Details of the targets set for 2013-14 are shown in the table below. Actual performance against target will be included in the update reports to this Committee.

Performance Indicator	Performance Target
1. Planned Days percentage of actual billable days against planned chargeable days completed	95%
2. Planned Projects percentage of actual completed projects to draft report stage	95%

	against planned completed projects	
3.	**Client Satisfaction** percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%
4.	**Number of High Priority Audit Recommendations agreed**	95%
5.	**External Auditor Satisfaction**	Annual Audit Letter formally records that the External Auditors are able to rely upon the range and quality of SIAS' work
6.	**Annual Plan**	Presented to the March meeting of each Audit Committee. Or if there is no March meeting then presented to the first meeting of the new financial year
7.	**Head of Assurance's Annual Report**	Presented to the first meeting of each Audit Committee in the new financial year.

Appendix A

Audit Planning Risk Assessment

During audit planning discussions managers are asked to evaluate identified emerging risk areas according to two criteria

- The significance of the emerging risk
- The desirability of audit activity in the area

The framework for scoring both criteria is below.

Risk Voting Criteria

A four point scale is used to score risk areas:

Severe A	- Managers are most concerned about this risk. - The consequences will have a severe impact on the delivery of priorities. - Comprehensive management action is required immediately.
Significant B	- Managers are concerned about this risk. - The consequences of the risk materialising would be significant, but not severe. - Some immediate action is required plus the development of an appropriate action plan.
Material C	- Managers are uneasy about this risk. - Consequences of the risk are not significant and can be managed through contingency plans. - Action plans can be developed later to address the risk.
Manageable D	- Managers are content to tolerate this risk. - Consequences of the risk are considered relatively unimportant. - The status of the risk should be reviewed periodically.

Desirability Voting Criteria

A five point scale is used:

Highly Desirable 1	Assurance activity will have a positive effect and be extremely beneficial / give high value in 13/14 with clear opportunity for joint work
Desirable 2	Assurance activity will have a positive effect with minimum negative effects; work will be beneficial and give value in 13/14
Neither Desirable nor Undesirable 3	Assurance activity will have a neutral effect and give some limited benefit and some limited value in 13/14
Undesirable 4	Assurance activity will have no positive effect, and give no benefit or value in 13/14
Highly Undesirable 5	Assurance activity will be detrimental in 13/14

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Watford Borough Council & Three Rivers District Council 2013/14 SIAS Audit Plan: Shared Service Coverage

Name of Audit in Plan	Plan Days	Risk Assessment	Audit Desirability	Qtr	Comments
Key Financial Systems					
Main Accounting System	19	n/a	2	3/4	Standard 'managed audit' approach and also as currently covered under FMS Reconciliations, journals and internal transfers
Payroll	14	n/a	2	3/4	Standard 'managed audit' approach, Northgate system
NNDR	12	n/a	2	3/4	Standard 'managed audit' approach, particular focus on recovery arrangements as impacted by new business rates arrangements
Council Tax	12	n/a	2	3/4	Standard 'managed audit' approach
Benefits Administration	15	n/a	2	3/4	Standard 'managed audit' approach and adjustments to Council Tax support arrangements, and relevant changes under Welfare Reform agenda
Creditors	11	n/a	2	3/4	Standard 'managed audit' approach
Debtors	11	n/a	2	3/4	Standard 'managed audit' approach
Income Collection					This has been done in 11/12 and 12/13 - propose not to cover in 14/15 subject to further discussion
Operational audits - intitial indication subject to further discussion with management teams					
Recruitment and vetting - follow up	5	TBC	2	1	Deferred from 12/13 and considered worthwhile in 13/14. Ties in with Councils' fraud prevention work as referred to by Grant Thronton in their forensic audit in 2012/13
Health and Safety	10	TBC	2	1	Review effectiveness of arrangements in this area
Procurement & Contract Management					
New IT contract - contract management review	10	B	2	3	Review arrangements to ensure contract management is robust vis a vis the new IT provider. Focus on change control, control of development days, performance reporting, escalation and rectification of issues
Counter Fraud					
Review of counter fraud arrangements in Shared Service Benefit Fraud Team	5	B	2	2	
Risk Management and Governance					
See local plans					
IT audits - intitial indication subject to further discussion with management teams					
IT vulnerabilities - extended follow up	10	B	2	2	To follow up the IT vulnerabilities report and give assurance on the approach in this area given by the new contractor
Cyber Risk	10	B	2	4	Could include risk and incident management, defences from cyber-attacks, access management, mobile network and device security, identity assurance - but note that the IT vulnerabilities follow up will provide some assurance
SIAS joint reviews					
New ways of working - seminar	1	B	2	3	SIAS CFOs have identified new types of financial arrangements as an area of emerging risk. SIAS will organise an event for finance staff to learn about initiatives such as 'risk and reward' schemes, payment by results and deliver a report back to authorities
Comparative review of budget setting and monitoring arrangements	1	B	2	2	SIAS CFOs have identified the criticality of effective budget monitoring at the present time. SIAS will organise an even for finance staff to benchmark good practice in this area and deliver a report back to authorities
Contingency					
See local plans					
12-13 Projects requiring completion					
Time required to complete work commenced in 2012/13	24	n/a	n/a	1	Based on an estimate provided by the internal audit team
Strategic Support					
See local plans					
Totals	170.0				

Watford Borough Council 2013/14 SIAS Audit Plan: WBC functions coverage

Name of Audit in Plan	Plan Days	Risk Assessment	Audit Desirability	Qtr	Comments
Key Financial Systems					
Treasury Management	5	n/a	2	2	Including as deferred from 12/13. Also shown in TRDC plan
Budget Monitoring	8	n/a	2	2	Including as deferred from 12/13. Also shown in TRDC plan
Asset Management	8	n/a	2	3	Including as deferred from 12/13. Also shown in TRDC plan
Operational audits - intitial indication of high priority areas subject to further discussion with management teams					
Project and Change Management	10	B	2	3	There are a number of major projects in place at WBC particularly in respect of redevelopment and regeneration; review arrangements for prioritisation and resource planning, protection of Council's interests and risk management. The review will consider developments such as Charter Place, and also any outcomes from our work on the Health Campus.
Housing redesign - advisory support	10	B	2	TBC	Review housing system from assessment to letting. Ensure processes and procedures observed. Ensure checking regime is appropriately targetted
Review of Corporate Spatial Data	10	B	2	TBC	Review adequacy of mapping information on corporate GIS system
Health Campus	10	B	2	2	Provide assurance around effective governance and oversight of the LABVI on completion of current phase
Commercial Rent	6	B	2	TBC	Assurance that income collection relating to the Councils commercial property portfolio is effective, ensuring effective communication between property team and sundry debtors team
Data Protection Follow up	6	B	2	TBC	Request for follow up activity in this area
Indication of days available to be distributed over highest ranking areas					
Procurement and Contract Management					
Procurement & Contract Management baseline assessment	10	B	2	2	Contract management wil be a key area of focus for WBC going forward
Outsourcing Decision	10	B	2	2	Possible review of contract mobilisation of new arrangements, depending on outcome of outsourcing decision
Counter Fraud					
Anti Fraud and Corruption Baseline Assessment	10	B	2	1	Will cover off Bribery Act 2010 and Money Laundering, and Fraud Good Governance reviews postponed from 12/13. Will pick up on aspects referred to by Grant Thornton in their forensic audit in 2012/13
Risk Management and Governance					
Risk Management	5	n/a	2	1	Review the Council's Risk Management arrangements
Corporate Governance	5	n/a	2	2	Watford's arrangements are changing as a result of the Future Council project. Further changes will occur when the Section 151 officer arrangements are amended
IT audits					Covered in Shared Services Plan
See shared services plan					
Contingency	2				
SIAS joint reviews					
Herts Waste Partnership	1	B	2	2	SIAS CFOs identified an assurance requirement in respect of the Hertfordshire Waste Partnership. Discussions are in train to confirm the proposed coverage in this area.
12-13 Projects requiring completion					
See Shared Services section					
Strategic Support					
Head of Internal Audit Opinion 2012/13	2	n/a	n/a	1	To prepare the HIAO for 2012/13
Introduction of Public Sector Internal Audit Standards	1	n/a	n/a	1	To produce and discuss an Audit Charter in order to comply with the new PSIAS
Audit Committee	8	n/a	n/a	All	To prepare and agree the internal audit committee reports, meet with the audit committee chair prior to the meeting, read committee reports, and present audit reports at the committee meeting
Monitoring & Client Liaison	5	n/a	n/a	All	To produce performance and billing information, work scheduling and to meet with the section 151 officer
2014/15 Audit Planning	3	n/a	n/a	4	To consult and prepare the 2014/15 audit plan
SIAS Development	3	n/a	n/a	All	The Council's contribution to developing the partnership
Follow up of recommendations	10	n/a	n/a	All	Based on follow up of all recommendations on a quarterly basis
Totals	**148.0**				

Following risk assessment the following deferred audits from 12/13 have been removed: Colluseum; Museum - Care of Collection; Grants - new commissioning framework
The following topics have been risk assessed not to meet the criteria for inclusion in the plan: Housing Letting, Rent Deposit Scheme, expenditure of Parking Reserve money, customer access, licensing, asbestos