

PART A

Report to: Audit Committee
Date of meeting: 12th January 2012
Report of: Audit Manager
Title: Internal Audit Progress Report

1.0 **SUMMARY**

This report and appendices provide updated information on the work undertaken by Internal Audit on the 2011/2012 Audit Plan in the period 1st April 2011 to 30th November 2011.

2.0 **RECOMMENDATIONS**

2.1 The contents of the report be noted.

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

3.0 **DETAILS**

- 3.1 This report covers the work undertaken by Internal Audit since the last report to Audit Committee in September 2011 to progress the Audit Plan for 2011/2012. Appendix (1) shows the position on individual audits from the 2011/2012 Audit Plan as at 30 November including cumulative time taken for the year compared to the time allocated in the annual audit plan. Appendix (2) shows the local performance measures to the same date.
- 3.2 The work undertaken to 30 November 2011 on the planned audits for 2011/2012 – namely Section 106 funds, the Museum, Decent Homes Grants, Insurance, Benefit Subsidy Claims, Current Contracts (Vehicle Maintenance), COA Post implementation review, Money Laundering, Financial Procedure Rules, Construction Industry Scheme (CIS) payments, Hospitality, IT Project Management – has not at this stage generated issues that need to be brought to the attention of the Audit Committee, other than as previously reported or as subsequently detailed below.
- 3.3 **COA (eFinancials) Post Implementation Review** – the report for this audit is currently in draft form and is based on a review of the security of data within the financial management system.

Processes for adding and deleting users and controlling scheduled access by the supplier were found to have been strengthened during 2011/12. However, the audit identified that action to resolve potential risks to the integrity of data on the eFinancials system and other council systems highlighted by external penetration testing (the ICT Health Check report) completed between October and December 2010 had been significantly delayed.

Moving forward, a prioritised project plan of infrastructure and process improvements to address all of the issues within the ICT Health Check report now forms workstream 5 of the Infrastructure Priority Roadmap programme.

The first phase of this workstream, dealing with the most significant issues, has been underway since November and progress is being reported weekly to the Head of ICT and then fortnightly to the Joint Shared Services Management Team.

- 3.4 **Current Contracts (Vehicle Maintenance)** – The audit has made recommendations in relation to documenting the systems for monitoring the existing and future contracts, obtaining a copy of the signed contract and implementing key indicators against which to monitor the performance of the contract. These have been accepted by the service and will be implemented for the new contract that is currently being tendered.

3.5 **Money Laundering** - Although a money laundering procedure note was introduced in 2006, there are no specific controls in place to ensure that potential money laundering cases are notified to the Money Laundering Reporting Officer (MLRO). In particular it was noted that whilst cash payments are regularly received by the Income Team, staff were not aware that reports should be made to the MLRO whenever large amounts of cash are paid to the council.

Recommendations have been made to ensure that regular refresher training on the processes for identifying and dealing with suspected money laundering cases is arranged for all staff responsible for taking cash payments or issuing refunds.

3.6 **Financial Procedure Rules** – A draft report has yet to be issued for this report. The initial findings are that the council's financial procedure rules (FPRs) have not been fully reviewed since 2008 and their availability is poorly signposted for staff.

3.7 **Hospitality** – The current guidance and forms regarding the receipt and recording of gifts and hospitality need to be updated to ensure they reflect the implications of the Bribery Act 2010 that came into force in July 2011.

Inconsistency in the completion of records when gifts are received, identified through testing for this audit, could potentially bring the adequacy of existing processes into question when looked at in the light of the Bribery Act requirements if left unchecked.

3.8 **IT Project Management** – This report identified and made recommendations in relation to the need to standardise the processes for project initiation and project closedown, including the completion of a project review to ensure that appropriate lessons are learned from what went well and what could have gone better for each project. The recommendations have now been implemented.

3.9 **Reconciliations** – Implementation of the new income management system has impacted on the production of bank reconciliations for Watford, with the last being completed in September 2011. Finance staff are confident that following successful completion of the bank reconciliations for Three Rivers using the new income management system that the reconciliations for Watford will soon be brought up to date.

Reports have been generated from the Academy systems for Revenues & Benefits that should allow reconciliation to the eFinancials system. Analysis of the Academy reports had yet to be completed by Finance at the time of writing this report to Audit Committee and as a result the Academy Revenues & Benefits systems had not been reconciled to eFinancials as at that time.

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.