

PART A

Report to: Audit Committee
Date of meeting: 14th March 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 24th February 2012.

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 January 2012 to progress the Audit Plan for 2011/2012. Appendix (1) shows the position on individual audits from the 2011/2012 Audit Plan as at 24 February 2012 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 24 February 2012 on the planned audits for 2011/2012 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 and as subsequently detailed below.
- 3.3 **COA (eFinancials) Post Implementation Review** – the draft report for this audit has now been discussed with management and it is anticipated that the final report will be issued shortly.
- Key recommendations relating to the taking of corrective action to address weaknesses identified through future penetration testing have been accepted.
- 3.4 **Recovery of Overpaid Benefits** – An audit management letter has been issued in respect of this audit rather than a full audit report.

The scheduler within the Academy Revenues & Benefits system, which controls the running of processes including the printing of invoices and reminders, has not been performing effectively throughout 2011/12. This, combined with issues relating to the transfer of overpayment data from the previous CIVICA system into the Academy system has meant that only limited work could be performed this year in relation to recovery of overpaid benefits from those previous claimants who are no longer entitled to benefit for either council.

As this was a significant part of the audit, it was considered appropriate to terminate the audit, report these findings, and ensure that the recovery of overpayments is included within the Benefits Administration audit work for 2012/13.

It was reported at the end of February that the issues with the scheduler have now been resolved. A recommendation has been made within the management letter to ensure that any recurrence of the issues during 2012/13 is resolved promptly to prevent an adverse effect on recovery of overpaid benefit.

It should be noted that the issues with the scheduler have not affected the recovery of overpayments through ongoing benefit wherever this is possible. This has contributed to maintaining the recovery percentages throughout 2011/12. The Recovery Team prioritise this as the method for recovery as it is the most cost effective way for the council to recover overpaid benefits.

3.5 **Reconciliations** – The eFinancials system (the general ledger) has been formally reconciled to the payroll system during the year for salaries/wages, tax and National Insurance, pension payments and sundry deductions.

The General Account bank reconciliation has now been brought up to date to the end of January 2012. This is an improvement from the previously reported position.

Reconciliations are also up to date between the general ledger and the Logotech system for treasury management transactions.

The implementation of a new income management system has, understandably, required significant input from the Finance Managers throughout 2011/2012. It is anticipated that the efficiency benefits of this new harmonised system will be fully realised in 2012/13 and this will have a positive impact on the production of regular reconciliations for cash and banking through the automation of many elements of the process. For 2011/12, the prioritisation of the income management system implementation work has limited the resource available for producing in-year reconciliations of both cash/banking systems and the revenues and benefits systems to the general ledger.

A significant piece of work has been undertaken within Revenues & Benefits to develop reporting routines that will provide expenditure data from the Academy system in a format that will simplify the updating of the general ledger and also demonstrate data integrity between the components of the Academy suite.

Whilst these reports are now being generated from the Academy Revenues & Benefits systems and ad-hoc cross-checking of the data from the Axis Income Management system to the corresponding data on eFinancials has been taking place, it remains the case that:

1. There have been no formal reconciliations during 2011/12 between the eFinancials Financial Management System (the ledger) and the Academy Revenues & Benefits systems for benefits, council tax and NNDR.
2. There have been no formal reconciliations of the eFinancials system to the Axis Income Management system. An onscreen check demonstrated that the systems were in balance at the end of January 2012.
3. The Payments Account bank reconciliation was last fully completed in September 2011. Cheque payments have been reconciled to the end of January 2012 but some outstanding items requiring recoding are preventing a full reconciliation following implementation of the Axis system.

This is a similar position to that reported last year. End of year reconciliations were produced for all systems for 2010/2011 and year end reconciliations will be produced for 2011/2012.

The importance of in-year reconciliations as a source of assurance is fully recognised and an action plan has been developed within Finance to ensure that in-year reconciliations will be produced between the general ledger (eFinancials) and all associated feeder systems throughout 2012/13 and beyond.

- 3.6 Members are asked to note that the remaining audits that are classed as work in progress in Appendix 1 have been scoped to enable a meaningful opinion to be provided within the remaining time available in this financial year and thereby minimise any overrun into 2012/13.
- 3.7 Members are also asked to note that the follow up audit of network controls has now been transferred into the audit plan for 2012/13.

This is because the required scope of the audit has changed significantly from being simply a “follow up” of the previous audit to requiring a more in depth review following the substantial changes made to the network infrastructure as a result of the Infrastructure Improvement Programme work performed by ICT.

As such, this is now one of the audits allocated to Deloitte to perform using their dedicated ICT audit team.

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.