

**WATFORD BOROUGH COUNCIL**  
**ANNUAL INTERNAL AUDIT REPORT 2012/2013**

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## 1 Introduction

This report summarises the work undertaken by Internal Audit in relation to the 2012/2013 audit plan to the end of May 2013. It covers functions performed directly by Watford Borough Council and by Shared Services on its behalf. The report meets the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 by:

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

The Accounts and Audit (Amendment) (England) Regulations 2006 require the Council to maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with proper practices in relation to internal control.

In May 2011, the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) agreed to collaborate in the development of the internal audit profession in the public sector. As a result, national Public Sector Internal Audit Standards (PSIAS), based upon the mandatory elements of the global CIIA's International Professional Performance Framework have been developed.

The PSIAS are effective from 1 April 2013 and consist of the following:

- Definition of Internal Auditing;
- Code of Ethics; and
- Standards for the Professional Practice of Internal Auditing.

A separate report on the PSIAS has been included on the agenda of the Audit Committee for 26 June.

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

## 2 Audit Opinion

Based on the internal audit work undertaken we give satisfactory assurance on the adequacy and effectiveness of the internal control environment.

There have been no significant new concerns arising from the majority of the audits undertaken in 2012/13 that necessitate an adverse overall opinion. **However, updates on some of the concerns reported in the previous Annual Report have been included in 2012/13.** These are listed in Section 3 of this report.

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

Every internal audit report contains an audit opinion on the effectiveness of controls within the system/function/activity reviewed, highlighting any significant weaknesses which could affect the Council's control environment. The opinion provided in each report falls into one of the following categories:-

**Substantial Assurance** = Controls are sound and are adhered to consistently providing confidence that, based on the testing for the audit, the service objectives in the area(s) reviewed will be achieved.

**Satisfactory Assurance** = Controls are sound in design but testing identified some inconsistent application that may put the achievement of some service objectives at risk in the area(s) reviewed.

**Limited Assurance** = Gaps in control and inconsistent application of controls put the achievement of service objectives in the area(s) reviewed at risk.

**No Assurance** = Significant absence of controls and/or significant failure in controls that are in place.

These individual opinions feed into the overall opinion provided in this report.

### **3 Audit Qualifications**

Whilst overall control arrangements are effective there are certain qualifications to this:

- **Reconciliations to the Financial Management System (reported 2011/12)**

An audit of reconciliations between the various feeder systems (revenues, benefits, payroll etc) and eFinancials has been finalised by Deloitte & Touche. The review confirmed that significant improvements have taken place regarding completing reconciliations. There are however some recommendations that have been made to further strengthen the system in operation.

The importance of in-year reconciliations as a source of assurance is fully recognised by Finance who will ensure that in-year reconciliations will be produced between the general ledger (eFinancials) and all associated feeder systems throughout 2013/14 and beyond.

- **ICT (reported 2011/12)**

The Councils must ensure they establish robust IT governance arrangements to manage the new contract (with Capita) along with a comprehensive IT strategy. Failure in this area will mean that the potential (and necessary) improvements to IT will not be realised and the costs of the contract could escalate.

Capita are committed to addressing the vulnerabilities identified within the IT systems, and the Councils have responded positively to implementing outstanding Internal Audit recommendations

- **Separation of Duties (reported 2011/12)**

As previously reported the issue of separation of duties in the processing of financial transactions (key financial systems) may be difficult to achieve taking into consideration the reductions in staffing levels brought about by the ongoing requirement to find savings. Heads of Services and Service Managers must continue to ensure that where staff numbers are reduced, appropriate compensating controls are put in place to mitigate the additional risk of error or fraud that may arise from increasing reliance on individuals to perform all or the majority of stages of transactions that were previously performed by separate officers.

**The following area was reported in the last annual report and has been addressed.**

- **Recovery of Overpaid Benefits (reported last year 2011/12)**

The previous annual report highlighted the failures of systems which hindered the recovery of overpaid Housing and Council Tax benefit. There have been improvements in the systems over the last financial year which have ensured that overpaid benefits are being recovered. Though follow up of last year's report was done, no additional testing was conducted this year.

#### **4 Basis of Opinion**

##### **4.1 Work Undertaken**

The work undertaken by Internal Audit during the 2012/2013 financial year was in accordance with the Audit Plan as approved by the Audit Committee. This has been a transitional year for Internal Audit as the service was transferred to the Shared Internal Audit Service (SIAS) partnership from 1 April 2013. As previously reported to the Committee, the departure of the Audit Manager resulted in a proportion of the audits allocated for 2012/13 to be postponed until 2013/14 or deleted if no longer considered necessary.

Details of the audits undertaken and a note of the progress on each one are shown in Appendix 1.

##### **4.2 The Scope of the Audit Plan**

The 2012/2013 Audit Plan was prepared by the Audit Manager after reviewing service plans and risk registers, completing a fraud risk assessment and consulting with senior officers. It was based on an assessment of the risks facing both councils and was designed to meet the requirements of the external auditors.

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

##### **4.3 Implementation of Recommendations**

When an audit is completed weaknesses/areas requiring improvement are discussed with senior management. This leads to an action plan being drawn up which shows agreed measures to be taken and the timescales within which they will be implemented.

All recommendations are followed up to ensure that action has been taken, or where not, that there is an acceptable reason. Occasional follow up visits are carried out and all recommendations relating to key systems are routinely followed up during the next planned audit. The results of the follow up

process, and in particular any failure to implement recommendations, is reported to each meeting of the Audit Committee.

These arrangements should ensure that action is taken to remedy any issues identified during the year

#### **4.4 Other Factors**

Other factors that have contributed to the construction of the internal audit opinion:

- Observations arising from requests to Internal Audit for assistance, attendance at meetings, committee agendas and minutes etc
- The absence of material changes in the Council's objectives or activities in the year under review.
- There have been no limitations placed on the scope of work undertaken by Internal Audit, on its access to records and information or on the provision of explanations as necessary.

#### **4.5 External Assurance**

The work undertaken by the external auditors has been taken into account and where appropriate the scope of individual Internal Audit assignments incorporates any concerns raised by the external auditors.

### **5 Fraud Investigations/Awareness**

With the exception of benefit fraud, which is investigated solely by the Benefit Fraud Team, Internal Audit is responsible for investigating suspected cases of fraud and corruption in collaboration with the Fraud Team.

It is management's responsibility to ensure that adequate control procedures are in place to deter and detect fraudulent activity, not Internal Audit's or the Fraud Team's. Internal Audit's responsibility includes providing an opinion on the effectiveness of the Council's arrangements to prevent and detect fraud, remaining vigilant on the potential for fraud in all areas audited and making recommendations to address weaknesses in controls that could give (or have given) rise to frauds.

There were no frauds of which Internal Audit is aware that should be reported to the Audit Committee.

## **6 Internal Audit - Quality Assurance**

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

- Scope of Internal Audit
- Independence
- Ethics for Internal Auditors
- Audit Committees
- Relationships
- Staffing, Training and Continuing Professional Development
- Audit Strategy and Planning
- Undertaking Audit Work
- Due Professional Care
- Reporting
- Performance, Quality and Effectiveness.

Based on reviews undertaken to date, we are satisfied that there are no material areas of non-compliance with the Code.

Internal Audit's work is subject to review by the external auditors on an annual basis. There has been no criticism of our work over the past year.

Internal Audit has its own quality assurance controls. Standard procedures and working papers are used. For every audit the working papers and all versions of the audit report are reviewed. Any concerns/queries are discussed with individual auditors.

Work on individual audits is carried out by auditors with the appropriate level of skill and experience.

Use is made of customer satisfaction questionnaires as a means of gaining independent comment on our service. Any issues raised are discussed with the customer and the auditor. We try to learn from any mistakes we may make or from suggestions for improvement.

**Alan Power**  
**Head of Finance Shared Services**  
**May 2013**

## APPENDIX 1

Position as at 3 June 2013  
2012/2013

### Annual Plan 2012/13

Audit	Progress
<b>Shared Audits</b>	
Payroll	Final report 03.06.13
NNDR	Final report 24.05.13
Council Tax	Final report 24.05.13
Benefits	Draft report stage
Creditors	Final report 07.05.13
Debtors	Final report 20.05.13
FMS: Reconciliations	Final report 21.5.13
FMS: Journals and Internal Transfers	Final report 21.05.13 (part of FMS Reconciliations)
Income Collection	Draft report stage
Final Accounts 2011/12 Preparations within Finance	Final report 25.06.12
Online expense claims – via ResourceLink	Final report 03.06.13 (part of Payroll audit)
West Herts Crematorium	Final report 10.08.12
IT – Virtualisation	Final report 12.12.12
<b>WBC</b>	
Cyber-crime awareness and prevention	Final Report 18.12.12
Risk Management	Final Report 17.05.13
Emergency Planning Processes (Olympics Readiness)	Final Report 20.07.12
Partnerships	Final Report 15.05.13
Carbon Management	Final Report 03.05.13
Procurement	Deferred to 2013/14
Data Transparency	Final Report 07.02.13
Data Protection	Final Report 18.03.13



Appendix 2

**LOCAL PERFORMANCE MEASURES 2012/2013**

<b>Criteria</b>	<b>Target p.a. (as per Audit Plan)</b>	<b>To 31<sup>st</sup> March 2013</b>	<b>Comment</b>
% of annual audit plan achieved. Based on number of audits.	92%	94%	This was based on revised Audit Plan (Audit team reduced from 3 to 2 staff).
Sickness – average days per employee.	4	3.2	
Training – average days	4	6.2	Time includes for internal and external seminars/training.

<b>Criteria</b>	<b>Target p.a.</b>	<b>Actual To 31<sup>st</sup> March 2013</b>	<b>Comment</b>
Final audit reports issued within 10 available working days of agreement to draft report.	100%	100%	
Level of customer satisfaction	94%	99.69	Based on 4 satisfaction surveys received.