



DACORUM BOROUGH COUNCIL

INTERNAL AUDIT PROGRESS REPORT

Audit Committee – September 30th 2014

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Introduction

This progress report to the Audit Committee covers the work carried out during the period July 21st 2014 to September 5th 2014 by Mazars Public Sector Internal Audit Limited.

Appendix 1 outlines progress to date against the 2014/15 Internal Audit Plan.

Background

The purpose of the internal audit plan is to identify the work required to achieve a reasonable level of assurance to be provided by Mazars Public Sector Internal Audit Limited in compliance with the Code of Practice for Internal Audit.

The fundamental role of Internal Audit is to provide senior management and Members with independent assurance on the adequacy, effectiveness and efficiency of the system of internal control, and to report major weaknesses together with recommendations for improvement. This role is fulfilled by carrying out appropriate audit work, normally in accordance with a strategic plan and an annual operational plan, as approved by the Director of Finance and the Audit Committee.

As internal audit is a major source of assurance that the Council is effectively managing the principal risks to the achievement of its corporate objectives, a key rationale for the development of the internal audit plan was the Council's own Corporate and Service Risk Registers and how the internal audit plan can provide this assurance.

Progress to Date

Audit fieldwork on the 2014/15 Internal Audit Plan is progressing well and audit coverage has been in line with the Plan, as shown in Appendix 1.

We have issued the following Final reports:

- Risk Management (Evaluation assurance: **Full**. Testing assurance: **Substantial**);
- Asset Management (Evaluation assurance: **Full**. Testing assurance: **Full**);
- Trees and Woodlands (Evaluation assurance: **Substantial**. Testing assurance: **Limited**);

With the agreement of the Chair of Audit Committee, the audit report on Trees and Woodlands will now come to the meeting on 17 December, when the relevant officers will be available to answer Members' questions.

We have issued the following Draft reports, for which we are awaiting the final management responses before issuing the Final Reports:

- Regeneration
- Customer Services Unit

Field work has commenced on the audits looking at Budgetary Control, Emergency Planning and Accounts Payable.

Follow-up of Recommendations

2011/12

It was noted that there is one recommendation still outstanding in relation to 2011/12. This related to Disaster Recovery Testing and was a Priority 2. Disaster Recovery testing should be in place to test all elements of the system recovery as set out in the agreement with ICM. It was also recommended that when tests have been carried out there is evidence to show that the results are reported to senior management and that any subsequent recommendations are implemented.

Appendix 3 provides a summary of the status of all 2011/12 recommendations where the proposed implementation date was at or before 5th September 2014. A management response regarding the outstanding recommendation is also detailed at Appendix 3.

All recommendations for 2012/13 have been cleared.

2013/14

The table below details the recommendations raised in the audit reports for 2013/14. It should be noted that progress in implementing recommendations raised in the 2013/14 audit plan has been followed up, as part of the 2014/15 audit plan and summary of the outcome is shown in the table below:

| Year | Total Recommendations | Implemented | % | Implemented or partly implemented | % |
|--------------|-----------------------|-------------|------------|-----------------------------------|-------------|
| 2013/14 | 28 | 25 | 89% | 28 | 100% |
| Total | 28 | 25 | 89% | 28 | 100% |

The recommendations that are partly implemented are as follows:

Accounts Payable - Management should critically review the current process of supplier set up, to ensure that supplier accounts are not inappropriately set up for individuals, who should instead be paid through payroll. All individuals that are to be set up as suppliers should complete the Business Status Form in full and sign and return to Accounts Payable.

The importance of complying with HMRC regulations around individual suppliers should be communicated across the organisation and confirmed received from Group Managers and above that requirements are understood. (Priority 2)

Planning - A documentation checklist should be compiled and completed for every Planning application. The checklist should be retained and signed off by the officer that completed the validation checks. (Priority 2)

Human Resources - All new staff should complete the mandatory training requirements within three months of starting their employment. An email reminder should be issued to all managers one month before that deadline. Spot checks should be carried out by HR on a monthly basis for all new starters to ensure mandatory training is being undertaken and completed within the set deadline. (Priority 2)

Appendix 4 provides a summary of the status of all 2013/14 recommendations where the proposed implementation date was at or before 5th September 2014.

Definition of Assurance & Priorities

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

| Level | Symbol | Evaluation Assessment | Testing Assessment |
|--------------------|--|--|---|
| Full |  | There is a sound system of internal control designed to achieve the system objectives. | The controls are being consistently applied. |
| Substantial |  | Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk. | There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk. |
| Limited |  | Weaknesses in the system of internal control design are such as to put the system objectives at risk. | The level of non-compliance puts the system objectives at risk. |
| Nil |  | Control is generally weak leaving the system open to significant error or abuse. | Significant non-compliance with basic controls leaves the system open to error or abuse. |

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

| Level | Definition |
|---------------------------------------|--|
| Priority 1 | Recommendations which are fundamental to the system and upon which the organisation should take immediate action. |
| Priority 2 | Recommendations which, although not fundamental to the system, provide scope for improvements to be made. |
| Priority 3 | Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed. |
| System Improvement Opportunity | Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system. |

Priority 1 Recommendations

We have not raised any Priority 1 recommendations as a consequence of the final reports issued since the last Audit Committee meeting.

Appendix 1 – Status of Audit Work 2014/15

| | Area | Scope | Plan Days | | Start of Fieldwork | Status | Opinion | | Recommendations | | | Comments |
|-------------------------------|---------------------|---|-----------|----------------|--------------------|--------|------------|---------|-----------------|---|---|----------|
| | | | | Days Delivered | | | Evaluation | Testing | 1 | 2 | 3 | |
| | | | | | | | | | | | | |
| Core Financial Systems | Main Accounting | Covering adequacy and effectiveness of controls including access control, journals, cost centre management, virements, year-end accounting and system interfaces. CRSA to be applied. | 7 | | Q4 | | | | | | | |
| | Budgetary Control | To cover the strategic approach to co-ordinating budgetary control, monitoring and reporting, and also testing a sample of departments | 8 | 6 | Q2 | WIP | | | | | | |
| | Accounts Receivable | Analysing the management of the Accounts Receivable system by considering invoicing and credit notes, creation and amendment of debtor accounts, debt recovery, write-off and management reporting. CRSA to be applied. | 7 | | Q3 | | | | | | | |
| | Accounts Payable | Evaluating the payment of creditor invoices, creation and amendment of supplier accounts, payments, security of cheques, and management of high value and urgent expenditure. CRSA to be applied. | 7 | 1 | Q2 | WIP | | | | | | |

| | | | | | | | | | | | | | |
|-------------------------------------|----------------------------------|---|-----------|----------|----|-------|--|--|--|--|--|--|--|
| | Treasury Management, Cash & Bank | To review the controls over cash flow forecasting, investments, loans, compliance with the Prudential Code and generation of management information. CRSA to be applied. | 7 | | Q3 | | | | | | | | |
| | Housing Repairs | Covering the adequacy and effectiveness of controls over the management of planned and responsive repairs. Will include post inspections and complaints. | 10 | | Q4 | | | | | | | | |
| Core Financial Systems Total | | | 46 | 7 | | | | | | | | | |
| Operational Risks | Procurement | Covering the adequacy and effectiveness of the Council's approach to corporate procurement. Will look at general contracts and performance against P1's. | 12 | | Q4 | | | | | | | | |
| | Partnership Arrangements | Review arrangements in place for joint strategic needs assessments and changes in commissioning services. | 10 | 1 | Q3 | | | | | | | | |
| | Customer Services Unit | Focus on areas such as effectiveness of customer service centre, customer feedback and complaints, and the telephony project. | 10 | 8 | Q2 | Draft | | | | | | | |
| | Capital Projects | To review the Council's project management of significant capital developments that are underway (sale of civic centre, public sector quarter) and the links to the current strategic view of land assets. To review will also look at the whole approach that the council takes for project management, with a focus on particular projects. | 10 | | Q4 | | | | | | | | |

| | | | | | | | | | | | | | |
|--|-------------------------------------|--|-----------|-----------|----|-------|------|-------------|--|---|---|--|--|
| | Efficiency Savings | Review of the progress in place for ensuring that savings are being made, e.g. identification and project management savings, budgetary control. | 10 | | Q4 | | | | | | | | |
| Operational Risks Total | | | 52 | 09 | | | | | | | | | |
| Strategic Risks | Regeneration | Project management assurance in respect of regeneration schemes. | 10 | 9 | Q2 | Draft | | | | | | | |
| | Asset Management | Assurance over the design and application of controls relating to the areas such as asset management strategy, capital accounting, partnership arrangements with voluntary sector / local community groups. Etc. | 10 | 10 | Q2 | Final | Full | Full | | | | | |
| | Community Infrastructure Levy (CIL) | Covering adequacy and effectiveness of controls over the introduction of the levy, including its collection and accounting processes. | 7 | 7 | Q1 | Final | Full | Substantial | | 2 | 2 | | |
| | Performance Management | Covering adequacy and effectiveness of controls over the Council's strategic approach to performance management (including management information, target setting and roles and responsibilities (following the re-structuring of the council. | 10 | 10 | Q1 | Final | Full | Substantial | | 2 | | | |
| | Emergency Planning | Covering adequacy and effectiveness of key controls over emergency planning and readiness. | 8 | 6 | Q2 | WIP | | | | | | | |
| Strategic Risks Total | | | 45 | 42 | | | | | | | | | |
| Governance, Fraud & other Assurance Methods | Corporate Governance | Evaluating the adequacy and effectiveness of corporate governance arrangements in accordance with the CIPFA code of practice. | 5 | | Q4 | | | | | | | | |

| | | | | | | | | | | | | | |
|--|-------------------------------|---|-----------|----------|--------|--|--|--|--|--|--|--|--|
| | Counter Fraud | Internal Audit will continue to work with the council in the development of a fraud risk register, the provision of fraud awareness training, proactive fraud exercises etc. | 15 | | All | | | | | | | | |
| | Control Risk Self Assessment | The use of CRSA to provide assurance that managers understand their requirements and take ownership of their responsibilities. To be utilised on a number of the core financials and will be issued prior to fieldwork and used | 7 | | Q3 & 4 | | | | | | | | |
| | Continuous Auditing | Data analysis scripts will be written on which both identify anomalies as well as comparing the number of anomalies occurring on a period by period basis. | 7 | | Q4 | | | | | | | | |
| Governance, Fraud & other Assurance Methods | | | 34 | 0 | | | | | | | | | |
| ICT | Data Security & PCI DSS | The specific scope will be agreed with management but would look to provide assurance over the information governance, customer data security and adherence to Caldicott. | 20 | | Q4 | | | | | | | | |
| | ICT Development - new systems | The specific scope will be agreed with management but would look to provide assurance over pre and post implementation reviews and focus on strength of controls. | 15 | | Q4 | | | | | | | | |
| ICT total | | | 35 | | | | | | | | | | |
| Other | Follow-up of Recommendations | Follow-up of all priority 1 and 2 recommendations made in final reports issued. | 10 | 2 | | | | | | | | | |
| | Management | | 25 | 10 | | | | | | | | | |

| | | | | | | | | | | | | | |
|---------------------|--------------------------------|--|------------|-----------|---------|-------|-------------|-------------|---|---|--|--|--|
| | Ad Hoc | Contingency allocation to be utilised upon agreement of the Assistant Director (Finance & Resources). | 17 | | | | | | | | | | |
| | Adhoc – Customer Services Unit | Opportunity to move the Council's Customer Services Unit toward a best practice standard by undertaking a high level review of the operations within the CSU. A complementary review using desk tops reviews, through observation and discussion with key officers. The aim of our work will be to suggest a range of options, based upon experience gained at a number of similar operations. | 3 | | | | | | | | | | |
| | Ad Hoc – Risk Management | Focusing on the Council's approach to Risk management | 10 | 10 | Ongoing | Final | Full | Substantial | | 4 | | | |
| | Ad Hoc – Trees and Woodlands | Covering the adequacy and effectiveness of controls over Policies, Procedures and Legislation; Contract Arrangements; Ordering of work; Completion of Work; Payment of Contractor Invoices; Budget Monitoring; Performance Management and Performance Benchmarking. | 10 | 10 | Q1 | Final | Substantial | Limited | 3 | 6 | | | |
| Ad Hoc total | | | 75 | 32 | | | | | | | | | |
| | | | | | | | | | | | | | |
| TOTAL | | | 287 | 90 | | | | | | | | | |

Appendix 2 - Summary of Final Reports

Brief outlines of the work carried out, a summary of our key findings raised and the assurance opinions given in respect of the final reports issued since the last meeting of the Audit Committee in July are provided in this section.

Risk Management (2014/15)

The overall objective of this internal audit was to provide the Members, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls relating to the Risk Management processes operated within the Council.

From our previous work and the work of other organisations, our view is that the fundamentals of the risk management process at Dacorum are sound and working well at an operational level

Therefore, following discussions with Senior Management, our review focused on identifying opportunities to move the Council's Risk Management processes toward a best practice standard rather than carrying out detailed compliance testing. Our work has been completed by carrying out desk tops reviews, through observation such as Audit Committee attendance and discussion with key officers. The aim of our work has been to suggest an action plan that helps Officers and Members to implement enhanced risk management procedures that improve decision making and scrutiny of decisions taken.

We have identified 4 key areas where we consider that the Council's Risk Management processes could be improved and have developed the action plan shown at Section 2. These are:

- Officer and Member involvement or engagement in the Risk Management process tends to come toward the end of the process in monitoring risks identified. There is significant scope for officers and Members to be involved in risk identification prior to significant decisions being made. As an example, the risks involved in a large project are often well understood by the project sponsor but less so by the Senior Management Team and Members who are making the decision to approve the project. [Major projects (i.e., those that go to the member/officer Performance Board and/or CSSG do have risk evaluations and a register prepared as part of the preparatory work – this will include member and senior management involvement. The SRR is regularly reviewed at CMT, and also goes to Cabinet and to the OSCs.]
- Whilst the fundamentals of the Risk management process operate effectively within the Council, there are opportunities to improve the risk reviews and risk registers for key projects and ensure that these tie into the Council's Risk Management strategy and project management approach.
- Officer and Member understanding of risk and risk management would be enhanced if the Council recorded the reasons why they requested further risk mitigation measures or accepted a risk as it stood.
- Whilst at an operational level there is a clear review and reporting process around risks identified through to the Senior Management Team, the same cannot be said for review and reporting of corporate risks through to Members. There are opportunities for wider Member involvement in the review of risks and for the Audit Committee to complete a review the overall process on a regular basis.

We have made **four** recommendations where we consider controls may be further improved and the current system can begin to adopt best practice. A suggested action plan is detailed in the Observation and Recommendation Section below.

Based on the work undertaken as detailed in the 'Audit Objective and Scope', our overall assessment is that the classification of assurance that can be taken in respect of Risk Management is **Substantial** assurance.

Asset Management (2014/15)

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Asset Management, and provide guidance on how to improve current the controls going forward.

In summary, the scope covered the following areas: Policy, Procedures and Legislation; Reconciliation and access to the ledger; Revaluations and Impairments; Verification of assets; and Disposal, Write offs and depreciation.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

| Evaluation Assessment | Testing Assessment |
|------------------------------|---------------------------|
| Full | Full |

We have not raised any recommendations in this audit report.

Appendix 3 – Follow-up of Recommendations 2011/12

A follow-up audit has been undertaken in accordance with the 2013/14 audit plan. The objective was to confirm the extent to which the recommendations made in 2011/12 internal audit final reports have been implemented. It was confirmed that there is still just one recommendation outstanding.

The tables below provide a summary of the status of all outstanding 2011/12 recommendations where the proposed implementation date was at or before 5th September 2014 and had not been reported as implemented at the previous Audit Committee meeting.

| Title | Raised | Implemented | Partly Implemented | Outstanding | No longer relevant | Original Due Date | Revised Due Date | Resp. Officer |
|-----------------------------|--------|-------------|--------------------|-------------|--------------------|-------------------|------------------|---------------|
| 2011/12 | | | | | | | | |
| IT Disaster Recovery | 8 | 3 | 4 | 1 | | 31/03/12 | 31/07/13 | LJ |
| IT Security | 24 | 21 | 3 | | | 30/06/12 | 30/08/13 | JW |
| Orchard Housing Application | 6 | 4 | 1 | | 1 | 31/10/12 | 01/04/14 | AP |

Recommendation: Disaster Recovery Testing is carried out and the provision of evidence to confirm that testing has taken place. The recommendation was a priority 2 recommendation.

Response: A response has been received from Ben Trueman regarding the status of this outstanding Recommendation, which is as follows:

The recommendation remains outstanding and is likely to do so for some time yet. Lon produced a very ambitious recovery plan which he handed to Paula Busby (Herts Resilience Officer) to include in the Corporate BCP. Some project based work remained to be completed in order to make that recovery plan real. With most of that work now completed we have taken the opportunity to look more closely at what was stated and how we might test it and put it into effect. It has become clear that the timescales for system recovery stated are not achievable. I have advised Paula Busby that this is the case and together with the Team Leader for ICT Operations (Dave Chamberlain) will be working on producing some more realistic timescales later in the Summer. (Before the timescales can be established, however, we need to undertake an upgrade to our storage administration system.)

The importance of the work is clear, although it competes as ever with other major projects and initiatives and realistically I do not expect us to be in a position to conduct a DR test this year but plan to do so next.

September 2014 – Update:

This matter was discussed at the last Audit Committee and it was agreed at the request of members that a representative officer should attend the next Audit Committee meeting to answer any questions.

Appendix 4 – Follow-up of Recommendations 2013/14

A follow-up audit has been undertaken in accordance with the 2014/15 audit plan. The objective was to confirm the extent to which the recommendations made in 2013/14 internal audit final reports have been implemented.

The tables below provide a summary of the status of all outstanding 2013/14 recommendations where the proposed implementation date was at or before 21st July 2014 and had not been reported as implemented at the previous Audit Committee meeting

| Title | Raised | Implemented | Partly Implemented | Outstanding | No longer relevant | Original Due Date | Revised Due Date | No Response | Not yet due | Resp. Officer |
|----------------------|-----------|-------------|--------------------|-------------|--------------------|-------------------|-------------------------|-------------|-------------|---------------|
| 2013/14 | | | | | | | | | | |
| Accounts Payable | 3 | 2 | 1 | | | | End of October | | | RB |
| Accounts Receivable | 1 | 1 | | | | | | | | RB |
| Council Tax | 3 | 3 | | | | | | | | CB |
| HB and CTX | 3 | 3 | | | | | | | | CB |
| Housing Rents | 2 | 2 | | | | | | | | KK |
| Payroll and Pensions | 2 | 2 | | | | | | | | GB |
| HR | 2 | 1 | 1 | | | | End of October | | | CH |
| Corporate Governance | 1 | 1 | | | | | | | | JD |
| Business Rates | 3 | 3 | | | | | | | | AE |
| Main Accounting | 1 | 1 | | | | | | | | RB |
| Contract Management | 3 | 3 | | | | | | | | BH |
| Planning | 4 | 3 | 1 | | | | End of September | | | JA |
| Total | 28 | 25 | 3 | | | | | | | |

Appendix 5 - Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

September 2014

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