



Dacorum Borough Council

## Draft Internal Audit Annual Report 2013/14

June 2014

This report has been prepared on the basis of the limitations set out on page 10.

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# Introduction

## Purpose of this Report

This report summarises the work that Internal Audit has undertaken and the key control environment themes identified across Dacorum Borough Council (the Council) during the 2013/14 financial year, the service for which is provided by Mazars Public Sector Internal Audit Limited<sup>1</sup>.

The purpose of the Annual Internal Audit Report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2011. The PSIAS requirements are that the report must include:

- An annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (the control environment);
- A summary of the audit work from which the opinion is derived (including reliance placed on the work by other assurance bodies); and
- A statement on conformation with the PSIAS and the results of the internal audit quality assurance and improvement programme (QAIP), if applicable.

The report should also include:

- The disclosure of any qualifications to that opinion, together with reasons for the qualification;
- The disclosure of any impairments or restriction in scope;
- A comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets;
- Any issues judged to be particularly relevant to the preparation of the annual governance statement; and
- Progress against any improvement plans resulting from QAIP external assessment.

It should be noted that the Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Dacorum Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Dacorum Borough Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.

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<sup>1</sup> As from 1 February 2014, Mazars LLP purchased the shares of Deloitte & Touché Public Sector Internal Audit Limited from Deloitte LLP. The company will be known as Mazars Public Sector Internal Audit Limited.

## Overview of Internal Audit Approach

As Internal Audit, our role is to provide an annual assurance statement on the adequacy and effectiveness of the Council's systems of governance, risk management and internal control.

## Overview of Work Done

The Audit Plan for 2013/14 included a total of 13 internal audit projects. We have liaised with senior management throughout the year to ensure that internal audit work undertaken continues to focus on the high risk areas and, in the light of new and ongoing developments in the Authority, help ensure the most appropriate use of our resources.

As a result of this liaison, some changes were agreed to the plan during the year. The timing of some internal audit projects has been changed and consequently, the total number of projects actually undertaken in 2013/14 was 13 compared to 27 in the prior year - refer Overall Summary. This was partly as a result of the change of internal auditors in October 2013 and the focus on providing assurances to support the external auditors work for year end.

We generally undertake individual internal audit projects with the overall objective of providing the Members, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls over a number of management's objectives. Other audit projects are geared more towards the provision of specific advice and support to management to enhance the economy, efficiency and effectiveness of the services and functions for which they are responsible. We also undertake IT audits and probity audits. All internal audit work was performed in line with our internal audit standards which are designed to ensure compliance with the PSIAS.

All internal audit reports include our recommendations and agreed actions that, if implemented by management, will enhance the control environment and the operation of the key management controls.

This report sets out the results of the work performed as follows:

- **Overall summary** of work performed by Internal Audit including an analysis of report gradings; and
- **Key themes identified** during our work in 2013/14.

In this report, we have drawn on the findings and assessments included in all internal audit reports issued in 2013/14, including those that, at this time, remain in draft. It should be noted therefore that the comments made in respect of any draft reports are still subject to management response.

## Overall Summary

As illustrated in the tables below, we have noted that Dacorum Borough Council has maintained its robustness of its control environment during the audit year. During the 2013/14 year, some 12 (92%) of internal audit projects were rated 'full/substantial assurance' compared with 23 (92%) in the prior year. These figures do however take into account that for the 2013/14 period regularity audits are now provided with an audit opinion. We have also noted that the number of internal audit projects rated 'limited assurance' has been maintained at a low level of 8%.

### Report Ratings

We have noted areas of improvement throughout the Council, including better control over key financial systems and a similar level percentage of positive assurances overall, with a slight improvement in the number of full assurance report issued.

We are pleased to report that we have issued no 'nil or limited assurance' opinions in 2013/14 relating to the key financial systems. This shows a clear indication that the control environment has been maintained throughout the year. As mentioned above all reports are provided with an audit opinion and this is reflected in the outcomes shown below.

A summary of key findings for all 2013/14 Internal Audit assignments rated as limited or nil assurance are included in Appendix 1..

| Assurance Gradings                | Number of Projects |     |           |     |
|-----------------------------------|--------------------|-----|-----------|-----|
|                                   | 2013/14            |     | 2012/13   |     |
| Full                              | 2                  | 15% | 1         | 4%  |
| Substantial                       | 10                 | 77% | 22        | 88% |
| Limited                           | 1                  | 8%  | 2         | 8%  |
| Nil                               | 0                  | 0%  | 0         | 0%  |
| <b>Sub-Total</b>                  | <b>13</b>          |     | <b>25</b> |     |
| Merged Audits / No Opinion Audits | 0                  |     | 0         |     |
| <b>Total Audits Delivered</b>     | <b>13</b>          |     | <b>25</b> |     |
| Audits Cancelled / Deferred       | 0                  |     | 2         |     |
| <b>Total</b>                      | <b>13</b>          |     | <b>27</b> |     |

**Opinion 2013/14**

From the Internal Audit work undertaken in compliance with the PSIAS in 2013/14, it is our opinion that we can provide **Substantial Assurance** that the system of internal control in place at Dacorum Borough Council for the year ended 31 March 2014 accords with proper practice, except for the significant control environment issues as documented in Appendix 1. The assurance can be further broken down between financial and non-financial systems, as follows:



## Key Themes Identified

**As Internal Audit continues to apply a risk based approach, our audit projects assess the governance framework, the risk management process as well as the effectiveness of controls across a number of areas. Our findings on these themes are set out below. Overall, we have seen a maintenance of the robustness of the control environment and whilst further remedial action needs to take place, we have noted that management has already started addressing our most significant findings.**

### Corporate Governance

As part of our work this year, we have again completed an evaluation of the governance arrangements in order to assist the Council and the S151 officer in the preparing the Annual Governance Statement for 2013/14.

As in 2012/13, we have concluded that there is reasonable assurance that the Council's governance arrangements are largely compliant with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on:

- The external auditor's annual audit letter 2012/13, where no significant weaknesses in the internal control arrangements were identified, and
- Our audit of the Council's corporate governance arrangements that provided an overall Full assurance rating.

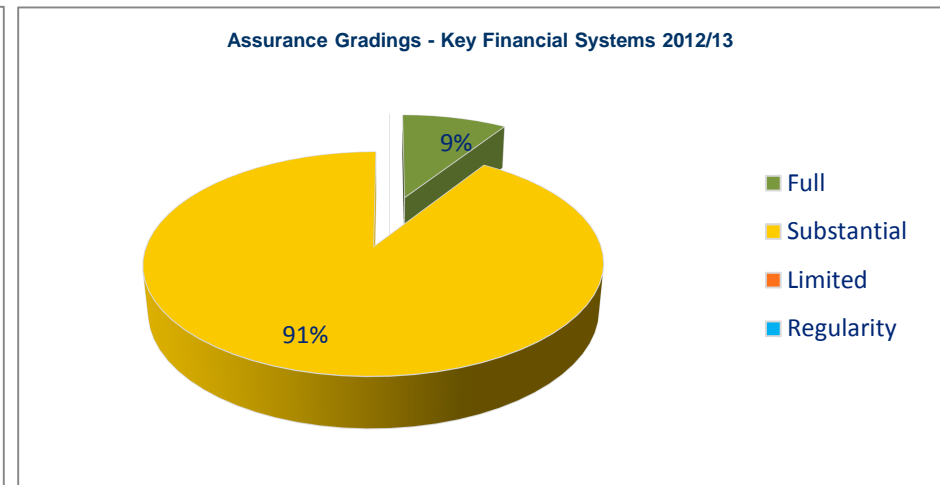
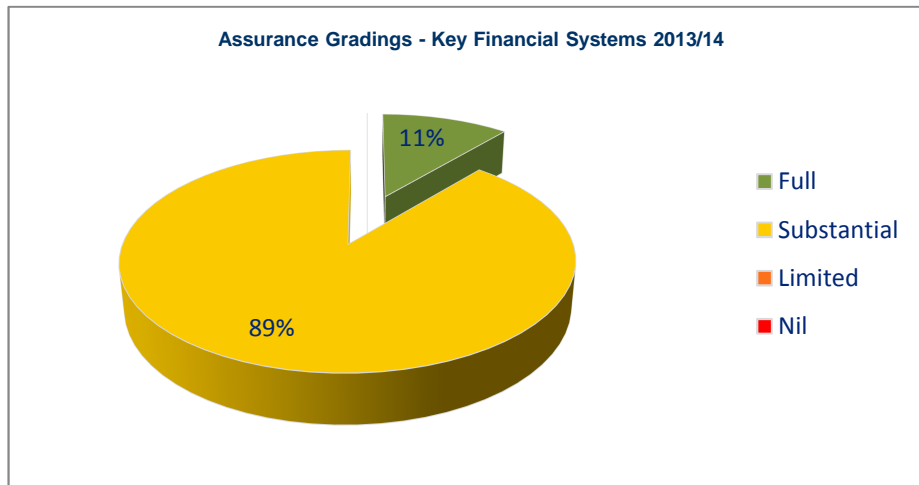
### Risk Management

Our view is that the Council's basic risk management procedures provide a good foundation for risk management within the authority. However, we have completed some initial work to suggest some enhancements to the Council's processes and help implement a best practice process. The process improvements suggested as part of this review will be reported to management in the next few weeks.

### Internal Control - Key Financial Systems

Each year Internal Audit carries out audit projects of the Council’s key financial systems, working in accordance with the managed audit process agreed with the external auditors.

This process allows the external auditors to place reliance on the work performed by Internal Audit to provide the Council with the necessary assurance that key financial controls in the fundamental systems are operating satisfactorily and support a robust control environment. It also allows the Council to limit external audit fees spent on reviewing the Council’s activities. The table below summarises the audit gradings in this key area:



Overall we have seen an improvement in the control environment around key financial systems. In particular, the number of full/full assurance opinions has been maintained at 1 in the year. This reflects the effort made by management to address key control recommendations raised in the year.




### Performance of Internal Audit

At the start of the contract, a number of performance indicators were formulated to monitor the delivery of the Internal Audit service to the Council. The table below shows the actual and targets for each indicator for the period:

| Performance Measure  | Target | Actual       |
|--|--------|--------------|
| Percentage of Internal Audit plan completed (to at least draft report stage) | 100%   | 100%         |
| Percentage of qualified staff used to deliver the service                    | 65%    | 87%          |
| Percentage of draft audit reports issued on time                             | 90%    | 100% (13/13) |
| Percentage of responses to the draft report received on time                 | 90%    | 100% (13/13) |
| Percentage of final audit reports issued on time                             | 90%    | 93% (12/13)  |
| Percentage of recommendations accepted in 2013/14                            | 96%    | 99%          |





## Appendix 1 - Audit Projects with Limited and Nil Assurance 2013/14

| Project             | Grading  | Summary of Key Findings   |
|---------------------|--|---|
| Contract Management | Limited<br> | <p>We have raised one priority 1 recommendation and two priority 2 recommendations where we believe there is scope for improvement within the control environment. These are set out below:</p> <ul style="list-style-type: none"> <li>• The meetings held between the Council and the Contractor should be documented and recorded as formal meeting minutes and/or action notes. <i>(Priority 2)</i></li> <li>• Key Performance Indicators as specified in contracts between the Council and service providers should be formally monitored and recorded. <i>(Priority 1)</i></li> <li>• Contracts which are defined as being of key importance to the Council should be identified and the performance of these contracts should reported formally to the Council on a regular basis. <i>(Priority 2)</i></li> </ul> |

## Appendix 2 - Key to Assurance Levels

### Assurance Gradings

We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

| Level              | Symbol  | Evaluation Assessment  | Testing Assessment  |
|--------------------|---|--|---|
| <b>Full</b>        |  | There is a sound system of internal control designed to achieve the system objectives.   | The controls are being consistently applied.  |
| <b>Substantial</b> |  | 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. |
| <b>Limited</b>     |  | 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.   |
| <b>Nil</b>         |  | 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.                                    |

### Recommendation Gradings

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

| Priority Level | Definition  |
|----------------|---|
| <b>1</b>       | Major issues for the attention of senior management and the Governance Committee. |
| <b>2</b>       | Important issues to be addressed by management in their areas of responsibility.  |
| <b>3</b>       | Minor issues resolved on site with local management.                              |

## 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**

**June 2014**

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