



DACORUM BOROUGH COUNCIL

INTERNAL AUDIT PROGRESS REPORT

Audit Committee – December 17 2014

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Introduction

This progress report to the Audit Committee covers the work carried out during the period October 1st 2014 to November 30th 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:

- Regeneration (Evaluation assurance: **Full**. Testing assurance: **Full**);
- Budgetary Control (Evaluation assurance: **Full**. Testing assurance: **Substantial**);
- Customer Services Unit (Evaluation assurance: **Substantial**. Testing assurance: **Limited**);
- Trees and Woodlands (Evaluation assurance: **Substantial**. Testing assurance: **Limited**); this report was deferred from the previous Audit Committee.
- Accounts Payable (Evaluation assurance: **Full**. Testing assurance: **Substantial**);
- Emergency Planning (Evaluation assurance: **Full**. Testing assurance: **Full**);

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

- Accounts Receivable
- Treasury Management;
- Main Accounting;

Quarter 4 Audits:

Assurance Framework

The approach we are proposing is based upon us supporting the Council in the development of its draft Assurance Framework and in future years, driving the Internal Audit plan from this framework. The Assurance Framework will provide a systematic, top-down identification and analysis of the assurance needs of the senior management and other key stakeholders of the Council, and the complete and seamless fulfilment through co-ordinated actions of the various assurance providers and the right combination of direct, risk and independent assurance. The process will also provide the evidence to support the Annual Governance Statement.

Fraud Awareness Worksops

The Audit Commission released their publication, Protecting the Public Purse, in October 2014, which examines the fraud risks that Councils face. The report makes several recommendations to Councils, including encouraging them to “*protect and enhance their investigative resources, so that they maintain or improve their capacity to detect fraud*” This recommendation is made in light of the decisions which Councils face as a result of investigation staff transferring to the DWP’s Single Fraud Investigation Service. During quarter 4 we will under take a review of the counter fraud services currently in place and examine the Council’s future plans to maintain access to investigative resource.

In addition Protecting the Public Purse recommends several areas in which Councils should raise awareness of fraud risk, including procurement, right to buy and housing tenancy fraud our work will examine what is currently being undertaken and make recommendations about areas where the Council may want to consider raising awareness of fraud. The work will be delivered by Mazars’ Counter Fraud Specialists and will be tailored to meet the needs of the Council taking into account any areas highlighted to us as a particular concern.

Follow-up of Recommendations

2011/12

There was one recommendation outstanding in relation to 2011/12. This related to Disaster Recovery Testing and was a Priority 2. Evidence was provided at the last audit committee that confirmed that the Council had taken actions to address this issue which confirmed that the recommendation had been implemented.

2012/13

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	27	96%	28	100%
Total	28	27	97%	28	100%

The recommendations that are partly implemented are as follows:

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)

Appendix 3 provides a summary of the status of all 2013/14 recommendations where the proposed implementation date was at or before 30th November 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 raised five Priority 1 recommendations as a consequence of the final reports issued since the last Audit Committee meeting. The recommendations were raised in relation to the Customer Services Unit and the Trees and Woodlands Audits and are as follows:

Customer Services Unit:

- The contractual Key Performance Indicators (KPIs) should be reviewed and updated. The revised KPIs should include targets for the average and longest call waiting time. (Priority 1)
- The Council should take measures to verify the data provided by the contractor, Northgate. (Priority 1)

Trees and Woodlands:

- There should be a Service Level Agreement (SLA) in place between the Planning Department and the Trees and Woodlands Team. The SLA should include a specification of the services to be provided and a performance management framework. The SLA should be signed by both parties. (Priority 1)
- A monthly reconciliation between the EzyTreev system and Agresso should take place. This should be signed and dated by the officer who carried out the reconciliation and verified by an independent officer. (Priority 1)
- Performance Indicators relating specifically to the Trees and Woodlands team should be accurately recorded on Corvu and based on information from a valid source. (Priority 1)

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	5	Q3	Draft						
	Budgetary Control	To cover the strategic approach to co-ordinating budgetary control, monitoring and reporting, and also testing a sample of departments	8	10	Q2	Final	Full	Substantial		2	1	
	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	5	Q3	Draft						
	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	7	Q2	Final	Full	Full			1	

	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	5	Q3	Draft							
	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	30									
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	Q4								
	Customer Services Unit	Focus on areas such as effectiveness of customer service centre, customer feedback and complaints, and the telephony project.	10	10	Q2	Final	Substantial	Limited	2	6	1		
	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	11									
Strategic Risks	Regeneration	Project management assurance in respect of regeneration schemes.	10	10	Q2	Final	Full	Full				1	
	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	8	Q2	Final	Full	Full					
Strategic Risks Total			45	45									
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 facilitate a Fraud workshop for the council in order to develop awareness of fraud risk and the impact of SFIS and the provision of fraud awareness training, proactive fraud exercises etc.	15		All								
	Control Risk Self Assessment (Management Assurance)	internal Audit will work with officers to self assess the controls in place and to record those controls in a series of linked spreadsheets to provide assurance that managers understand their requirements and take ownership of their responsibilities. Internal audit will then undertake sample testing to verify the appropriateness of evidence to support the assessments made. The outcomes will then form part of the annual governance statement.	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 – CRM System	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	3								
	Management		25	16								
	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	39								
TOTAL			287	125								

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 September are provided in this section.

Regeneration (2014/15)

Our audit of DBC’s internal controls operating over Regeneration found that there is a sound system of internal control designed to achieve the system objectives. The controls are being consistently applied. 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

Key Findings

We have raised one priority 3 recommendation where we believe there is scope for improvement within the control environment. This is set out below:

- Payments to suppliers / contractors should be made within the contractors agreed terms and conditions. (Priority 3).

Budgetary Control (2014/15)

Our audit of DBC’s internal controls operating over Budgetary Control found that there is a sound system of internal control designed to achieve the system objectives. However, there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

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	Substantial

Key Findings

We have raised two priority 2 and one priority 3 recommendation where we believe there is scope for improvement within the control environment. These are set out below:

- The reconciliation between approved budgets and budgets uploaded onto Agresso should be signed off to indicate approval. In addition, discrepancies identified during the reconciliation should be clearly explained.
Budgets should be uploaded onto the Agresso system in a timely manner and evidence of this should be retained by the Finance team. (Priority 2)
- All Budget Holder meeting notes should be written up for each meeting with the accountants. (Priority 3)
- All virements should be processed and authorised in line with the Council’s Financial Regulations. Budget holders should be reminded of the need to comply with the requirements of the Council’s Financial Regulations when authorising Virements. (Priority 2)

Customer Services Unit (2014/15)

Our audit of DBC’s internal controls operating over the Customer Service Centre found that 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. Furthermore, the level of non-compliance puts the system objectives at risk.

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
Substantial	Limited

Key Findings

We have raised two priority 1 recommendations, six priority 2 recommendations and one priority 3 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- The Contract Register should be regularly reviewed and updated. The updated version of the Contract Register should be made available on the Council's website. Furthermore, the recent updates to the Procurement Strategy and Procurement Standing Orders should be made available on the Council's website. (Priority 2)
- The Council should request an Exit Plan from the contractor. The Exit Plan should be reviewed by the Council and agreed with the contractor within thirty working days of its submission. (Priority 2)
- The contractual Key Performance Indicators (KPIs) should be reviewed and updated. The revised KPIs should include targets for the average and longest call waiting time. (Priority 1)
- The Council should take measures to verify the data provided by the contractor, Northgate. (Priority 1)
- All Heads of Service within the Council should provide regular feedback about the quality of service provision of the contractor. Quarterly customer stakeholder surveys should be completed by all services in a timely manner. (Priority 2)
- The level of feedback collected from customers using web based services should be increased. (Priority 2)
- There should be a Service Level Agreement in place between the Council and the contractor for the provision of ICT services. (Priority 2)
- Comprehensive failure demand data should be analysed to identify where Council resources are best focused to resolve problems. (Priority 2)
- The Council's Complaints Policy and Procedures should be regularly reviewed and updated in accordance with changes to the complaints process. Updated documents should be made available to all officers. (Priority 3).

Trees and Woodlands (2014/15)

Our audit of DBC’s internal controls operating over Trees and Woodlands found that 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. However, the level of non-compliance puts the system objectives at risk.

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
Substantial	Limited

Key Findings

We have raised three priority 1 recommendations and six priority 2 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- A record of all the training that has been undertaken by members of the Trees and Woodlands team should be maintained and should be reviewed on a regular basis. (Priority 2).
- Procedural guidance notes should be in place to document the day to day processes that are carried out by the Trees and Woodlands team. (Priority 2).
- Contracts and Agreements between the Council and third party providers should be in place, and should be signed and sealed by both parties prior to the start date of the contract. (Priority 2)
- There should be a Service Level Agreement (SLA) in place between the Planning Department and the Trees and Woodlands Team. The SLA should include a specification of the services to be provided and a performance management framework. The SLA should be signed by both parties. (Priority 1)
- Spot checks of both Arborcare and Treelife's contracted work should be carried out on a monthly basis. A percentage of contractors previous months work to be checked should be agreed and the checks carried out. (Priority 2)

Consideration should be given to the viability of a direct electronic link between the EzyTreev and Agresso system to allow for direct data transfer. (Priority 2)

- A monthly reconciliation between the EzyTreev system and Agresso should take place. This should be signed and dated by the officer who carried out the reconciliation and verified by an independent officer. (Priority 1)
- Performance Indicators relating specifically to the Trees and Woodlands team should be accurately recorded on Corvu and based on information from a valid source. (Priority 1)
- Benchmarking of the Trees and Woodlands Service should take place on a regular basis. (Priority 2)

Accounts Payable (2014/15)

Our audit of DBC's internal controls operating over Accounts Payable found that there is a sound system of internal control designed to achieve the system objectives and the controls are being consistently applied.

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

Key Findings

We have raised one priority 3 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- Officers should be reminded of the need to raise a Purchase Order for all items of expenditure via the Council's Purchase Orders Processing system (POP). (Priority 3).

Emergency Planning (2014/15)

Our audit of DBC’s internal controls operating over Emergency Planning found that there is a sound system of internal control designed to achieve the system objectives. Furthermore, the controls in place are being consistently applied.

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

Key Findings

We have not raised any recommendations in this report.

Appendix 3 – 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	3								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	2								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	27	1							

Appendix 4 - 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

December 2014

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