



**DACORUM BOROUGH COUNCIL
2011/12 INTERNAL AUDIT PROGRESS REPORT
AUDIT COMMITTEE – 8TH FEBRUARY 2012**

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1. Introduction

This progress report to the Audit Committee covers the work carried out during the period December 2011 to January 2012 by Deloitte and Touche Public Sector Internal Audit Limited.

Appendix 1 outlines progress to date against the 2011/12 Internal Audit Plan.

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

The fundamental role of Internal Auditors 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.

2. Progress

Audit fieldwork is progressing well and audit coverage has been in line with the 2011/12 plan, as shown in Appendix 1.

The following reports have been finalised since the last Audit Committee meeting in December and are presented in full to this meeting:

- Data Quality;
- Housing Asset Management;
- Accounts Payable;
- Information Security; and
- IT Business Continuity & Disaster Recovery.

The following reports have been issued in draft and management are considering their responses to the issues raised. Final reports will be presented to the next Audit Committee meeting:

- Accounts Receivable;
- Housing Rents; and
- Business Rates.

3. Planned Work

Audit assignments currently in progress include the following:

- Council Tax;
- Housing and Council Tax Benefits; and
- Project Management.

Audit assignments to be carried out during Q4 include the following:

- Main Accounting; and
- Housing IT system.

4. Corporate Anti Fraud

In Appendix 2 we outline progress in respect of Corporate Anti Fraud.

5. Follow-up

See separate report.

STATUS OF AUDIT WORK 2011/12

APPENDIX 1

Audit	Plan Days	Days Delivered	Status	Assurance (Evaluation)	Assurance (Testing)	Number of recommendations		
						Priority 1	Priority 2	Priority 3
Finance and Governance								
Corporate Governance	10	10	Final	Full	Substantial		2	
Risk Management	14	14	Final	Substantial	Substantial		3	3
Environmental Health / Food Safety	10	10	Final	Substantial	Substantial		4	1
Commissioning	15	0	February					
Main Accounting	10	0	February					
Budgetary Control	12	12	Final	Full	Substantial		1	1
Accounts Payable	10	10	Final	Full	Substantial		2	1
Payroll	10	10	Final	Full	Substantial		2	1
Council Tax	15	13	Fieldwork					
Business Rates	10	10	Draft					
Housing and Ctax Benefits	15	10	Fieldwork					
Accounts Receivable	10	10	Draft					
Housing Rents	12	12	Draft					
Property	10	10	Final	Substantial	Substantial		3	3

Audit	Plan Days	Days Delivered	Status	Assurance (Evaluation)	Assurance (Testing)	Number of recommendations		
						Priority 1	Priority 2	Priority 3
Health and Safety Follow - up	5	5	Final	Not Applicable	Not Applicable	3	4	3
Partnerships	10	10	Final	Substantial	Limited	1	6	1
Human Resources	10	10	Final	Substantial	Substantial		6	
Data Quality	10	10	Final	Substantial	Substantial		5	
Project Management (Transformation)	12	5	Fieldwork					
Waste Recycling	10	10	Final	Full	Substantial		3	3
Information Technology								
Business Continuity and Disaster Recovery	10	10	Final	Substantial	Limited		7	1
Information Security	20	20	Final	Limited	Limited	5	15	4
Housing IT System	10	0	February					
Housing and Regeneration								
Housing Repairs and Maintenance	10	10	Final	Substantial	Substantial		6	2
Housing Asset Management	15	15	Final	Substantial	Substantial		4	
Planning Fees	10	10	Final	Full	Substantial		7	
Other								
Corporate Anti-Fraud	40	5	ongoing					
Other Ad hoc: -Property Lettings	15	4	ongoing					

Audit	Plan Days	Days Delivered	Status	Assurance (Evaluation)	Assurance (Testing)	Number of recommendations		
						Priority 1	Priority 2	Priority 3
Follow ups	15	11	ongoing					
CRG	5	0.5	ongoing					
Management	30	22	ongoing					
Total	400	291.5						

Corporate Anti Fraud

Summary of Progress

As presented to the Committee at the last meeting, a plan has been agreed for providing support to the Corporate Anti-Fraud Team (CAFT) in respect of proactive counter fraud activity.

We are currently liaising with the CAFT, so as to fully understand the work being undertaken by them, and to determine the most appropriate areas for us to provide input into.

Since the last meeting we have provided the CAFT with material on the Bribery Act 2010, for inclusion in their training sessions to staff on fraud awareness. Initial indications from the CAFT were that the overall materials used for these sessions are adequate, but that it would be helpful if we could provide them with additional content in this area.

Awareness raising activity is a key way in which the Council can help to deter staff from committing fraud internally, as well as helping them to understand their role in tackling fraud and specific actions that they should be taking to help prevent and detect any fraudulent activity against the Council.

We have also made contact with the Communication and Consultation Team Leader, and have agreed that an article will be included within the staff newsletter, *The Review*, feeding back the results of the fraud awareness survey and providing staff with a summary of further planned activity across the Council. This will further help to raise awareness, as well confirming to staff that the survey was taken seriously and that their input was of value, thus providing additional support to the deterrence effect. At the time of writing, we are currently drafting the article and are due to meet with the Communication and Consultation Team Leader on 3 February to discuss and finalise this.

Further Planned Activity

We are also due to meet with the Corporate Anti-Fraud Team Leader on 3 February to discuss other activities in more detail. As part of this we have proposed reviewing the wider materials used for the fraud awareness sessions, the intention being to determine whether there may be any other elements, other than the Bribery Act 2010, where we may be able to provide additional content in order to help further develop these.

Other proposed tasks include the facilitation of fraud risk workshops with officers, and further input in respect of the Council's response to the Bribery Act. We will also discuss the potential use of our proprietary software, Quest, for undertaking data analytical work in key fraud risk areas such as accounts payable, payroll and expenses. From a proactive perspective, awareness and publicity are key to helping deter such instances of fraud. In addition, internal audit coverage in these areas, coupled with any lessons learnt from past investigations, should help to strengthen controls and hence to prevent fraud from occurring.

With regards to detection, controls in these areas should be both preventative and detective in nature, and hence controls such as approvals and reconciliations should help to identify any fraud that may be occurring. Whilst noting this, these are areas in which large volumes of data are held and high numbers of transactions take place, thus increasing the potential for anomalies to be missed. In addition, the aspect of collusion between individuals can lead to otherwise robust controls being bypassed, thus allowing fraud to occur undetected. Given the volumes of data involved, the most efficient and effective means of undertaking additional detective work is to use computer based data analytical tools.

In addition to the newsletter article, the Communication and Consultation Team Leader has also confirmed that they would be happy to work with us and the CAFT to develop a more comprehensive communications plan. This will be discussed in more detail on 3 February.

Sector Update

To help keep the Audit Committee up to date on counter fraud developments across the wider local government sector, we are highlighting the following:

Fighting Fraud Locally

The National Fraud Authority (NFA) has developed a new strategy for tackling fraud in local government, *Fighting Fraud Locally*.

The strategy is due to be circulated to all Chief Executives during February, and builds on the extensive and well regarded arrangements already in place across local authorities, emphasising the increasing focus on prevention and detection measures, as well as the importance of joint working and information sharing across organisations.

As such, the increasing focus being placed on proactive efforts within the Council is therefore consistent with this strategy.

We have been undertaking a number of pieces of work with the NFA, including an exercise on understanding the barriers to and opportunities for information sharing between organisations, and also regarding the development of an e-Learning package on fraud awareness.

The e-Learning package is nearing completion and is due to be launched nationally prior to the end of the financial year. It will be provided free of charge to all local authorities and will serve as a general awareness tool for all levels of staff. As such, this will therefore also form part of the further planned activity for the Council, although it will not divert days away from other tasks given the zero charge. However, it is our intention to develop further more specific modules, which will incur a charge, and this is another area which we will discuss with the CAFT and the Assistant Director, Finance and Resources going forwards.

Bribery Act 2010

We provided the Committee with an introduction to the Bribery Act 2010 as part of the training session delivered in July 2011.

In November 2011 the first prosecution was made under the Act. This concerned a clerk who took bribes whilst working at a London magistrate's court. The individual took £500 to avoid putting details of a traffic summons on a court database, although the prosecution is reported to have believed that he earned at least £20,000 by helping 53 offenders. In addition, he gave people advice on how to avoid being summoned over traffic offences. He was sentenced to three years for bribery and six years for misconduct in a public office.

The Committee are reminded of the following key elements of the Act:

- It comprises offences that can be committed by both individuals and organisations, and is relevant to both the public and private sectors;
- The individual offences relate to both the giving and receiving of bribes;
- The corporate offence applies only to the failure to prevent the giving of bribes, not to the receipt of bribes. However, it relates to all parties working on an organisation's behalf, referred to as '**associated persons**', not just direct employees;
- The only defence against the corporate offence is the proof of '**adequate procedures**'. The Ministry of Justice published guidance around this, setting out six guiding principles for organisations to follow in ensuring that such procedures are in place. These are as follows:
 - Proportionate procedures;
 - Top level commitment;
 - Risk assessment;
 - Due diligence;
 - Communication (including training); and

- Monitoring and review; and
- Given that a public sector organisation's operations are focused on the provision of services as opposed to the commercial sale of a good or service, the risk of bribes being received is considered to be more likely than the risk of bribes being given or offered. However, whilst noting the above limitations on the corporate offence, within the public sector, organisations should still seek to limit the opportunity for the receipt of bribes, given that any such instances could be reputationally damaging. In addition, in the event that this related to a procurement exercise, there could be a value for money impact if the result is that the contract is awarded to a more expensive bidder than would otherwise be the case.

The following diagram provides a summary of the offences, together with examples of how these could be committed and an indication of the convictions that could be incurred.

	Offence	Example	Convictions
INDIVIDUALS	Bribing another person	Bribing an external assessment agency to issue a positive report (e.g. Ofsted, HMRC, CQC)	Individuals could face a 10 year prison sentence and unlimited fines
	Receiving a bribe	Receiving a bribe from a parent to allocate a school place	
	Bribery of foreign public officials	Bribing a foreign public official in connection with agreeing a twinning arrangement with a foreign town/city	
ORGANISATIONS	Failure to prevent bribery	<i>N.B. only applies to the failure to prevent any instances of bribes being given <u>not</u> to any instances of bribes being received</i>	Organisations could face unlimited fines and reputational damage could be significant.

Further practical examples of areas in which there is a risk of bribes being received by staff across a local authority are as follows:

- If an individual is involved with **procurement** activity, they may be offered a bribe by a potential supplier in return for awarding them a contract;
- If an individual is involved with the giving of any form of **grant funding**, either to individuals or organisations, they may be offered a bribe in return for awarding them the funding;
- If an individual is involved with the award of any form of **licence**, they may be offered a bribe in return for this;
- If an individual is involved with any form of **monitoring and enforcement activity**, they may be offered a bribe in return for overlooking unacceptable behaviour / activity;

- If an individual is involved with the **allocation of housing** or any other form of service for which the applicant must prove eligibility, they may be offered a bribe in return for the escalation up a waiting list or for overlooking non-eligibility;
- If an individual is involved with **administering charges** for any service, they may be offered a bribe in return for waiving this; and
- If an individual is involved with the **processing of any form of payment**, be this to an individual or an organisation, they may be offered a bribe in return for inflating this or making a payment which would otherwise not be due.

As noted under the section above on 'Further Planned Activity', we will liaise with the CAFT and the Assistant Director, Finance and Resources, regarding any required further input in respect of the Council's response to the Bribery Act.

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 internal audit 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 internal audit 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 internal audit 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. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit 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 audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Deloitte & Touche Public Sector Internal Audit Limited

St Albans

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