MAZARS

DACORUM BOROUGH COUNCIL

INTERNAL AUDIT PROGRESS REPORT

Audit Committee – June 17 2014

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Introduction

This progress report to the Audit Committee covers the work carried out during the period April 1st 2014 to June 13th 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

We have completed all the audits contained in the 2013/14 Audit plan.

We have issued 1 final report in the period since the last audit committee meeting in April 2014 and that is summarised in Appendix 2. This is:

- Human Resources (Evaluation assurance: **Substantial**. Testing assurance: **Substantial**)

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 draft reports:

- Community Infrastructure Levy (CIL) (Evaluation assurance: **Full**. Testing assurance: **Substantial**);
- Performance Management (Evaluation assurance: **Full**. Testing assurance: **Substantial**);

Field work has commenced on the audit looking at the Trees and Woodlands. In addition we have commenced work on an Audit project looking at the Council's approach to Risk Management. The aim of this project is to build on the current foundations and help develop and implement the best practice approach to risk management in the council.

Follow-up of Recommendations

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. At the current time we are unable to confirm what progress has been made in these areas.

Appendix 4 provides a summary of the status of all 2011/12 recommendations where the proposed implementation date was at or before 31st March 2014.

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 will be followed up, as part of the 2014/15 audit plan and will be reported to the next meeting of the Audit Committee.

Year	Total Recommendations	Implemented	%	Implemented or partly implemented	%
2013/14	30				
Total	**30**				

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	F	There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial	S	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	L	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	N	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 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	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							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		Q2							
	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		Q3							

	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**	**0**										
Operational Risks	Procurement	Covering the adequacy and effectiveness of the Council's approach to corporate procurement. Will look at general contracts and performance against PI's.	12		Q4									
	Partnership Arrangements	Review arrangements in place for joint strategic needs assessments and changes in commissioning services.	10	1	Q3									
	Customer Services	Focus on areas such as effectiveness of customer service centre, customer feedback and complaints, and the telephony project.	10		Q2									
	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**	**1**									
Strategic Risks	Regeneration	Project management assurance in respect of regeneration schemes.	10			Q2							
	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			Q2							
	Community Infrastructure Levy (CIL)	Covering adequacy and effectiveness of controls over the introduction of the levy, including its collection and accounting processes.	7	6.5		Q1	Draft						
	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	9.5		Q1	Draft						
	Emergency Planning	Covering adequacy and effectiveness of key controls over emergency planning and readiness.	8			Q2							
Strategic Risks Total			**45**	**16**									
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											
	Management		25	4										

	Ad Hoc	Contingency allocation to be utilised upon agreement of the Assistant Director (Finance & Resources).	20												
	Ad Hoc – Risk Management	Focusing on the Council's approach to Risk management	10	2	Ongoing										
	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	8.5	Q1										
Ad Hoc total			**75**	**14.5**											
TOTAL			**287**	**31.5**											

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 December are provided in this section.

Human Resources (2013/14)

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

In summary, the scope covered the following areas: Policies, Procedures and Legislation, HR Transactions and Records, Pre-employment Checks, Contracts of Employment and Training.

Evaluation Assessment	Testing Assessment
Substantial	Substantial

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

- 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. (Prioity 2).

- HR Policies and Procedures should be regularly reviewed and updated and should be made readily available to the relevant members of staff. (Priority 2).

Appendix 3 – Follow-up of Recommendations

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 and this related to Disaster Recovery Testing and the provision of evidence to confirm that testing has taken place. The recommendation was a priority 2 recommendation. Internal Audit were unable to obtain evidence to confirm that this recommendation has been implemented. However, due to the time that elapsed since the audit, and that it is a priority 2 recommendation, it is suggested that the Audit Committee agrees that this should be treated as implemented.

The tables below provide a summary of the status of all outstanding 2011/12 recommendations where the proposed implementation date was at or before 22nd April 2014 and had not been reported as implemented at the previous Audit Committee meeting.

Title	Raised	Implem ented	Partly Implem ented	Outstan ding	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

Note:

Contacted John Worts regarding the recommendations listed above for IT Disaster recovery and IT Security. To date no further response since the last audit committee.

Orchard Housing Application – contacted Allan Parry – regarding the partly implemented recommendation. Unable to provide further information. Stated that the Orchard system is no longer used as the current system for Housing Applications, therefore is the recommendation now No Longer Relevant.

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

April 2014

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