

Dacorum Borough Council - Internal Audit Final Report

Main Accounting

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Key dates:

Date of fieldwork: February 2012

Date of draft report: March 2012

Receipt of responses: April 2012

Date of final report: April 2012

This report has been prepared on the basis of the limitations set out in Appendix C.

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Contents

1. EXECUTIVE SUMMARY	3
2. SCOPE OF ASSIGNMENT	5
3. ASSESSMENT OF CONTROL ENVIRONMENT	6
4. OBSERVATIONS AND RECOMMENDATIONS	7
Recommendation 1: Monthly Control and Reconciliation Checklist (Priority 3)	7
APPENDIX A – REPORTING DEFINITIONS	8
APPENDIX B – STAFF INTERVIEWED	10
APPENDIX C - STATEMENT OF RESPONSIBILITY	11

1. Executive summary

1.1. Background

As part of the Internal Audit programme for 2011/12, we have undertaken an audit of Dacorum Borough Council's (DBC) systems of internal control in respect of Main Accounting.

The purpose of the main accounting function is to ensure that the general ledger is appropriately maintained; that all financial transactions are complete and accurate; and that reconciliations take place between the feeder systems (Payroll, Orchard, Cash Receipting and Accounts Receivable) and the general ledger.

1.2. Objectives and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of controls over the Main Accounting process and provide guidance on how to improve controls going forward.

In summary, the scope covered the following areas; Policies, Procedures and Legislation; IT Systems and Security; Reliability and Integrity of Transactions; Journal Entries and Manual Adjustments' Year End Procedures; Budgetary Control; and Follow up Previous Audit Recommendations. Further detail on the scope of the audit is provided in Section 2 of the report.

1.3. Summary assessment

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

We have raised one recommendation within the report; however our assurance level reflects the current status of the control environment whilst acknowledging the work being undertaken by management in this area.

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

Management should be aware that our internal audit work was performed according to UK Government Internal Audit Standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment for Main Accounting is shown in Section 3.

1.4. Key findings

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

- The monthly Control and Reconciliation Check List for Revenues and Benefits should be signed off and reviewed by the Group Manager (Revenues and Benefits).

1.5. Management Response

We received the management response to the recommendation raised in a timely manner and this has been included in the main body of the report.

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

2. Scope of assignment

2.1 Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of Main Accounting, with regards the areas set out in section 2.3, are adequate and are being consistently applied.

2.2 Approach and methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- discussions with key members of staff to ascertain the nature of the systems in operation;
- evaluation of the current systems of internal control through walk-through and other non statistical sample testing;
- identification of control weaknesses and potential process improvement opportunities;
- discussion of our findings with management and further development of our recommendations; and
- preparation and agreement of a draft report with the process owner















2.3 Areas covered

The audit was carried out to evaluate and test controls over the following areas:

- *Policies, Procedures and Legislation*
The Main Accounting function is effectively managed and statutory obligations and CIPFA guidance are complied with.
- *IT Systems and Security*
Systems and data are adequately protected and prevent unauthorised access.
- *Reliability and Integrity of Transactions*
Information held on the general ledger is correct and allows the Council officers and members to make efficient and effective decisions for the use of resources.
- *Journal Entries and Manual Adjustments*
Journal entries and adjustments are correct, authorised and complete.
- *Year End Procedures*
At the year end, all appropriate action is taken to establish the complete and accurate financial position prior to the Annual Report and Accounts being prepared.
- *Budgetary Control*
The financial management of the Authority is conducted in line with Statutory Requirements and the strategic provisions of the Council.
- *Follow-up Previous Audit Recommendations*
Recommendations raised in the previous audit report have been implemented.

3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Policies, Procedures and Legislation			
IT Systems and Security			
Reliability and Integrity of Transactions			Recommendation 1
Journal Entries and Manual Adjustments			
Year End Procedures			
Budgetary Control			
Follow Up Previous Audit Recommendations			

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

4. Observations and Recommendations





Recommendation 1: Monthly Control and Reconciliation Checklist (Priority 3)

<p>Recommendation</p> <p>The Revenues and Benefits Management Control and Reconciliation monthly checklist should be signed off by the Group Manager (Revenues and Benefits) before Finance sign off the reconciliations process.</p>
<p>Observation</p> <p>The Revenues and Benefits section completes a Monthly Control and Reconciliation Checklist that is signed off each month to evidence that a review has taken place to verify accuracy of the feeder systems (Housing Benefits/Council Tax/Business Rates) into the general ledger. The form is signed off by officers from the aforementioned functions and countersigned by the Group Manager (Revenues and Benefits). The paperwork is then forwarded to Finance who retain it and check it off as part of the monthly reconciliations control sheet.</p> <p>A file is kept within Finance which holds all the reconciliations for the current year. It was found that for the months of May, June, July, August and November, the management review box on the checklist from Revenues and Benefits had not been completed. Additionally, for the month of August, there was no evidence that the individual reconciliations for Council Tax and Business rates had been checked. However, it was noted that an overall management review of the reconciliations had been carried out within Finance by the Team Leader and Group Manager.</p> <p>Without evidence of management review of the reconciliation within the Revenues and Benefits section, there is a risk that discrepancies between these control accounts and the general ledger are not identified and addressed in a timely manner.</p>
<p>Responsibility</p> <p>Group Manager (Financial Services)</p>
<p>Management response / deadline</p> <p>Agreed. The Group Manager (Financial Services) has confirmed that these should have been carried out and signed off. Staff within Finance will be reminded going forward to ensure this is signed off promptly before completion of reconciliation process.</p>

Appendix A – Reporting definitions

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.

Appendix B – Staff interviewed

The following personnel were consulted:

Marie Stokes	-	Team Leader (Financial Planning and Analysis Team)
Richard Baker	-	Team Leader (Regulatory and Financial Accounting)
Robbie File	-	Business Systems Developer
James Deane	-	Group Manager (Financial Services)

We would like to thank the staff involved for their co-operation during the audit.

Appendix C - 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

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