



Draft Internal Audit Annual Report 2012/13  
Dacorum Borough Council



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# Introduction

## Purpose of this Report

This report summarises the work that Internal Audit has undertaken during the financial year 2012/13 and the key control environment themes identified across the Authority.

## Overview of Internal Audit Approach

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

## Overview of Work Done

The Audit Plan for 2012/13 focused on high risk areas to the Council. 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, ensures the most appropriate use of our resources.

As a result of this liaison, some changes were agreed to the plan during the year. Some projects have been added to or deleted from the Plan, others have been split into separate elements, and the timing of a number of others has been changed. Consequently, the total number of projects actually undertaken in 2012/13 was 25 (compared to 27 in the prior year) - refer Overall Summary.

We generally undertake individual 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 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, follow up audits and anti-fraud work.

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 2012/13.

In this report we have drawn on the findings and assessments included in all internal audit reports issued in 2012/13, 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

During the 2012/13 year, 23 (92%) of the internal audit projects were rated 'full/substantial assurance' compared with 23 (85%) in the prior year. The percentage of internal audit projects rated 'limited assurance' has reduced from 15% to 8%.

### Report Ratings

As in previous years, we have noted areas of improvement throughout the Authority, including better control over key financial systems resulting in fewer recommendations being raised.

We are pleased to report that we have not issued any 'nil assurance' opinions in 2012/13, and have only issued two 'limited assurance' opinions.

### Significant Control Weaknesses

Internal Audit is required to form an opinion on the robustness of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which have arisen during the financial year 2012/13. As such, below is a list of all priority 1 recommendations raised during 2012/13 by Deloitte Public Sector Internal Audit. Included in italics is management's response to these recommendations, together with the proposed implementation date.

### Performance Management – Review of Performance Indicators

*Recommendation:* Performance indicators should be reviewed on an annual basis and justification of the target set should be provided, even where there is no change from the previous year. The target should then be approved by a senior manager.

*Management response / deadline:* Agreed / 2013/14 target setting process. In 2012/13, a new process was introduced to record service objectives and key progress milestones consistently across the Council. Milestone targets were uploaded to Corvu so that they could be regularly and formally reviewed. Targets were assessed as part of this process to test relevance against service level objectives but the conclusions were not formally recorded. Thus the formal process for approving targets was replaced with an alternative approach which did not result in controls being weakened. For 2013/14 the formal target setting process is to be reintroduced to strengthen further annual service planning and data quality documents will be signed off. This was agreed at Assistant Directors Group on 9/4/13.

**Virtual Infrastructure and Remote Access – Use of Secure Virtual Configuration Controls**

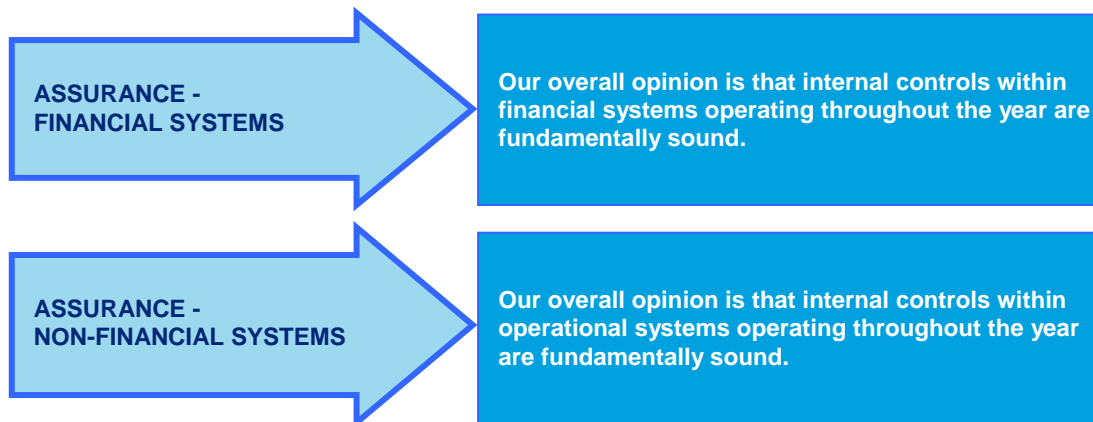
*Recommendation:* The ICT Security Manager and Virtual Infrastructure Manager should make appropriate use of the virtual security settings and administrator accounts after formally assessing the vendor's best practice security configuration control check list that VMware has developed to address known risks and concerns.

*Management response / deadline:* Agreed / Completed. The audit in December 2012 was conducted against the original DBC VMWare 4.1 cluster, which was at maximum capacity and was not configured with best practice in mind. DBC have introduced new VMWare clusters (Xenapp /ESXi 5) built by an external expert consultancy, built to industry standards. This new environment is configured with standard controls in place. Servers have been migrated off the old environment on to this new one, and any new servers being built now, are being configured on the new cluster.

Assurance Gradings	Number of Projects			
	2012/13		2011/12	
Full	1	4%	2	7%
Substantial	22	88%	21	78%
Limited	2	8%	4	15%
Nil	0	0%	0	0%
<b>Sub-Total</b>	<b>25</b>		<b>27</b>	
Merged Audits / No Opinion Audits	0		1	
<b>Total Audits Delivered</b>	<b>25</b>		<b>28</b>	
Work in Progress – delayed until May at the request of the client	2		0	
<b>Total</b>	<b>27</b>		<b>28</b>	

### Opinion 2011/12

From the Internal Audit work undertaken in 2012/13, it is our opinion that we can provide **Satisfactory Assurance** that the system of internal control in place at Dacorum Borough Council for the year ended 31 March 2013 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

As Internal Audit continues to apply a risk based approach, our reviews 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 some improvements in 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.

### Risk Management

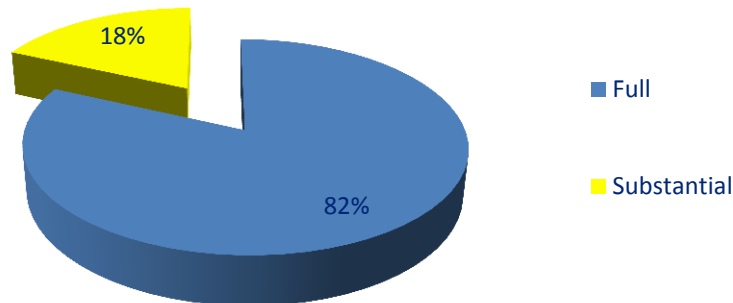
Based on an internal audit of the Authority's risk management framework, we have concluded that there is reasonable assurance that the Authority's risk management processes are sufficiently formalised and provide information on key risks and issues relating to directorates and the Authority as a whole. There has been significant change in the personnel responsible for updating registers and the registers themselves have been changed to reflect the updated structure of the organisation. However, we found there are processes for identification, recording, and reporting risks, controls, and to help identify action plans to mitigate risks to an acceptable level. The audit provided an overall substantial assurance rating, and we have raised recommendations to further enhance and embed risk management processes.

### Internal Control - Key Financial Systems

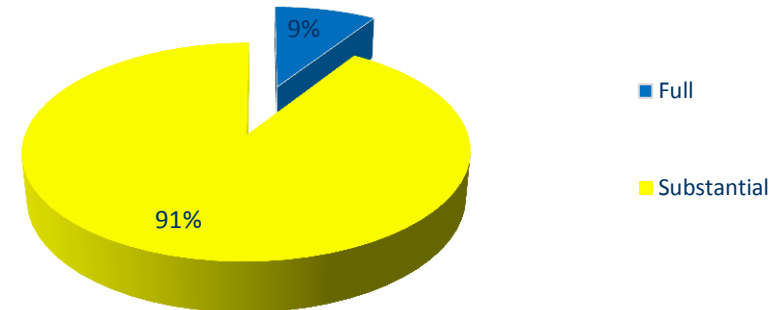
Each year Internal Audit carries out audits of the Authority's key financial systems, working in accordance with the managed audit process agreed with External Audit.

This process allows the external auditors to place reliance on the work performed by Internal Audit to provide the Authority 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 Authority to limit external audit fees spent on reviewing the Authority's activities. The table on the following page summarises the audit gradings in this key area:

### Evaluation Assessment - Key Financial Systems 2012/13



### Testing Assessment - Key Financial Systems 2012/13



Overall we have seen a significant improvement in the control environment around key financial systems with regards the number of recommendations raised in each report.

As referred to in the overall summary above, and included in Appendix 1 – Projects with Limited and Nil Assurance 2012/13, we provided limited assurance for either design of controls, or application of controls, or both for four audit areas in respect of:





- Performance Management; and
- Virtual Infrastructure and Remote Access.

It should also be noted that whilst we highlight in Appendix 2 – Assurance Levels and Priorities the breakdown, by priority, of the recommendations raised in audit reports issued during the year, we have only raised priority 1 recommendations where we consider the issue to be fundamental to the system and upon which the organisation should take immediate action to remedy in two reports.

We have identified a number of priority 2 and priority 3 recommendations where we believe the control environment can be improved; these are detailed in the individual audit reports presented to the Audit Committee on a quarterly basis.

































## Appendix 1 - Projects with Limited and Nil Assurance 2012/13

















Project	Evaluation Assessment	Testing Assessment	Summary of Key Findings
Performance Management	Limited 	Substantial 	<p>We have raised one priority 1, and one 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>In six out of ten targets tested, there was no evidence of an annual review by the responsible officer; the performance indicator and the data quality documents were the same as the previous year and there was no rationale behind the target set. (Priority 1)</li> <li>From a sample of monthly and quarterly performance reports, audit confirmed that on the various reports produced throughout the year, there were a number of performance indicators where the data for the period had not been approved prior to the report being produced. In addition to this, one of the ten targets sampled identified the Group Manager as both the person entering the data and the approver, which prevents any independent verification of the performance data reported.</li> </ul>
Virtual Infrastructure and Remote Access	Limited 	Limited 	<p>We have raised one priority 1 recommendation, three priority 2 recommendations and one priority 3 recommendation where we believe there is scope for improvement within the control environment. These are summarised below:</p> <p><u>Priority 1</u></p> <ul style="list-style-type: none"> <li>Analysis of the virtual infrastructure security settings in use at the Council found 45 controls (60%) did not comply with the vendor's best practice standards.</li> </ul> <p><u>Priority 2</u></p> <ul style="list-style-type: none"> <li>No ICT risk register is currently being used in the existing Business As Usual environment.</li> </ul>





			<ul style="list-style-type: none"><li>• Capacity Management procedures did not always meet current best practice quality standards.</li><li>• Network Access Protection controls which can protect access to network resources based on a client computer's identity and compliance with corporate governance policy are not in use.</li></ul> <p><u>Priority 3</u></p> <ul style="list-style-type: none"><li>• The ICT Policy Compliance Monitoring Officer did not have read only and reporting access to the service desk call monitoring reporting tools.</li></ul>
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## Appendix 2 – Assurance Levels and Priorities

Project	Evaluation Assessment	Testing Assessment	Status	Priority		
				1	2	3
Main Accounting	Full 	Substantial 	Final	0	1	1
Budgetary Control/ Savings Realisation	Full 	Substantial 	Final	0	1	0
Income and Debt Management	Full 	Full 	Final	0	0	1
Accounts Payable	Full 	Substantial 	Final	0	1	1
Treasury Management, Cash and Bank	Full 	Substantial 	Final	0	2	0
Payroll	Full 	Substantial 	Final	0	4	1
Council Tax	Full 	Substantial 	Final	0	2	1

Project	Evaluation Assessment	Testing Assessment	Status	Priority		
				1	2	3
Localisation of Council Tax	Full 	Substantial 	Final	0	1	1
NNDR	Full 	Substantial 	Final	0	1	2
Housing and Council Tax Benefits	Substantial 	Substantial 	Final	0	2	3
Housing Rents	Substantial 	Substantial 	Final	0	1	2
Procurement (Housing Repairs & Maintenance)	Full 	Substantial 	Final	0	1	1
Procurement Processes	Full 	Substantial 	Final	0	3	0
Building Control	Substantial 	Substantial 	Final	0	1	2
Sickness Management	Substantial 	Substantial 	Final	0	2	0





Project	Evaluation Assessment	Testing Assessment	Status	Priority		
				1	2	3
Housing Allocations	Full 	Substantial 	Final	0	2	0
Homelessness	Full 	Substantial 	Final	0	2	1
Regeneration	Substantial 	Substantial 	Final	0	3	3
Asset Management	Full 	Substantial 	Final	0	5	0
Section 106	Substantial 	Substantial 	Final	0	3	1
Performance Management	Limited 	Substantial 	Final	1	2	0
Emergency Planning	Full 	Substantial 	Final	0	2	0
Virtual Infrastructure and Remote Access	Limited 	Limited 	Final	1	3	1
Project	Evaluation Assessment	Testing Assessment	Status	Priority		
				1	2	3

IT Service Delivery			Work in Progress			
IT Website Audit			Work in Progress			
Risk Management	Full 	Substantial 	Draft	0	2	0
Anti-Social Behaviour Processes	Substantial 	Substantial 	Final	0	5	4
<b>Total Number of Recommendations</b>				<b>2</b>	<b>52</b>	<b>26</b>

## Appendix 3- 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.

The assurance gradings provided above 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 Assurance' does not imply that there are no risks to the stated objectives.

## 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	Staff Consulted
1	Major issues for the attention of senior management and the audit committee.
2	Important issues to be addressed by management in their areas of responsibility
3	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 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 May 2013**

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