DACORUM BOROUGH COUNCIL

INTERNAL AUDIT PROGRESS REPORT

Audit Committee – December 18 2013

CONTENTS

Introduction

This progress report to the Audit Committee covers the work carried out during the period November 1st 2013 to 11th December 2013 by Deloitte and Touche Public Sector Internal Audit Limited.

Appendix 1 outlines progress to date against the 2013/14 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 Deloitte & Touche 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 2013/14 Internal Audit Plan commenced in November 2013 and audit coverage has been in line with the Plan, as shown in Appendix 1.

We have issued 2 final reports in the above period and these are summarised in Appendix 2. These are:

- Accounts Receivable (Evaluation assurance: **Full.** Testing assurance: **Substantial**)
- Accounts Payable (Evaluation assurance: **Full.** Testing assurance: **Substantial**)

In addition, we have issued draft reports for two other audits. These are as follows:

- Payroll and Pensions Administration
- Treasury Management/Cash and Bank

The outcome of these audits will be reported to the next meeting of the Audit Committee.

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 2012/13 internal audit final reports have been implemented. Appendix 4 provides a summary of the status of all 2012/13 recommendations where the proposed implementation date was at or before 30th November 2013.

Follow up of the 2011/12 recommendations has not taken place in this period and will be reported on at the next committee meeting. In summary, excluding those recommendations that are either not yet due for implementation or are no longer applicable:

Year	Total Recommendations	Implemented	%	Implemented or partly implemented	%
2011/12	143	131*	92	142*	99
2012/13	75	71	95	75	100
Total	**218**	**202**	**93**	**217**	**99**

Appendix 3 provides a breakdown of the priority 1 recommendations raised in 2011/12 and 2012/13 audit reports, although a follow up of these has not taken place due to our focus on commencing the 2013/14 audit plan. Appendix 3 also includes details of partly implemented or outstanding Priority 1 recommendations as at April 2013 and a follow up will be carried out in order to report to the next meeting.

*As at April 2013.

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

No priority 1 recommendations have been raised as a consequence of the final reports issued since November 2013.

Appendix 1 – Status of Audit Work

Assurance Requirement	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							
	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	7	Nov	Final	Full	Substantial		1		
	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	Nov	Final	Full	Substantial		2	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	6	Nov	Draft						
	Payroll and Pensions Administration	Assessment of controls over starters, leavers, amendments, expenses, overtime, auto enrolment, voluntary deductions and management of the outsourcing arrangements. CRSA to be applied.	10	9	Nov	Draft						
	Council Tax	To review the controls including liabilities, billing, cash collection, recovery and accounting. CRSA to be applied.	10		Q4							
	NNDR	Evaluation of controls including Business Rate Retention Scheme, liabilities, billing, cash collection, recovery and accounting. CRSA to be applied.	10		Q4							

Assurance Requirement	Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							Evaluation	Testing	1	2	3	
	Housing Benefit & Council Tax Support	Review of controls including new claims, size criteria, benefit caps and discounts, amendments, backdated benefits, payments and reconciliations, considering the application of Universal Credit. CRSA to be applied.	10		Q4							
	Housing Rents	Covering adequacy and effectiveness of controls over the management housing rents and service charges.	7		Q4							
Core Financial Systems Total			**75**	**29**								
	Contract Management	Reviewing the Council's corporate approach to contract management, including identification of contractual requirements and monitoring achievement. Focus on specification of Customer Services Unit.	8		Q4							
	Planning	Covering key controls over the planning process. The review will look at the approach to re-engineering the service in light of the national planning guidance, as well as ensuring the Council embeds the new process including all measures are in place in order to avoid special measures and financial penalties.	8		Q4							
	Human Resources	Analysis of key controls over recruitment, workforce planning, sickness absence, appraisals and training.	8		Q4							
Operational Risks Total			**24**	**0**								

Governance, Fraud & Other Assurance Methods	Corporate Governance	Evaluating the adequacy and effectiveness of corporate governance arrangements in accordance with the CIPFA code of practice.	8		Q4									
	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 to scope the audit.	8	3	Q3/Q4									
	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.	8		Q4									
Fraud & Other Assurance Methods Total			**24**	**3**										
Other	Follow-up of Recommendations	Follow-up of all priority 1 and 2 recommendations made in final reports issued to confirm whether the Council remains exposed to the risks identified through assurance work.	5	1										
	Management		12	3										
	Ad Hoc	Contingency allocation to be utilised upon agreement of the Assistant Director (Finance & Resources).	10											
Other Total			**27**	**4**										
Total			**150**	**36**										

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 November are provided in this section.

Accounts Receivable (2013/14)

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

In summary, the scope covered the following areas; policy, procedures and legislation, debtor transactions and records, standing data amendments, raising invoices / bills, collection, refunds, debt recovery and enforcement, management information, and security of data and follow up of previous recommendations.

As a result of the work undertaken, the level of assurance for this audit is set out below.

Evaluation Assessment	Testing Assessment
Full	Substantial

We have raised one priority 2 recommendation where we believe there is scope for improvement within the control environment. Management has agreed to implement the recommendation raised. The priority 2 recommendation and the management response are set out below:

- Write off schedules should be produced on a monthly basis in accordance with the Financial Regulations. Each schedule should be processed and appropriately authorised in the subsequent month and accounts updated.
  Consideration should be given to a review of the write off requirements within the Financial Regulations, to include a minimum total value for a schedule and / or the frequency of schedules to be produced.

Management Response

Partly Agreed.

The Deputy Section 151 officer had requested further evidence and legal advice for one of the July debts. This was due to its unusual circumstances and the need to establish whether there were any further legal channels available to recover the funds before agreeing the write off. The legal team needed to take external advice which was received in November. On receipt the schedule was signed and actioned within 3 working days.

The October schedule included a large sum which requires under the financial regulations approval by the portfolio holder. A report has been submitted and awaiting the approval following call in period.

We recognise the importance of write off schedules being produced and approved in a timely manner; however, we also have to ensure that we are confident that the decision to write the debt off is the appropriate action.

The normal process for preparing a write off schedule and processing the transactions takes a maximum of 5 days. However, given the exceptional circumstances regarding 2 large and complex debts the process in the highlighted instances took longer than customary.

When looking at the preparation of write off schedules each month, the value and the number of debts are considered. If the value of the debts is unlikely to have any impact (as in April and May) these are held until there is a reasonable amount to cover the administration involved.

Accounts Payable (2013/14)

The overall objective of this audit was to assess the adequacy and effectiveness of the system of internal controls designed to manage and mitigate financial and non-financial risks relating to Accounts Payable.

In summary, the scope covered the following areas: policies, procedures and legislation; creditor transactions and records; standing data amendments; purchase order processing; goods receipting; invoice processing; payments processing; management reporting; security of data and follow up of previous audit recommendations.

As a result of the work undertaken, the level of assurance for this audit is set out below.

Evaluation Assessment	Testing Assessment
Full	Substantial

We raised two priority 2 recommendations and one priority 3 recommendation where we believe there is scope for improvement within the control environment. Management has agreed to implement all of the recommendations raised. The priority 2 recommendations and management responses are set out below:

- Management should critically review the current process of supplier set up, to ensure that supplier accounts are not inappropriately set up for individuals, who should instead be paid through payroll.
  All individuals that are to be set up as suppliers should complete the Business Status Form in full and sign and return to Accounts Payable.

  The importance of complying with HMRC regulations around individual suppliers should be communicated across the organisation and confirmed received from Group Managers and above that requirements are understood.

Management Response

Partly agreed.

Whilst the recommendation is understood, there is no practical means of mitigating this risk within the Accounts Payable (AP) control system. To do so would require checking the status of all individuals paid through the AP system against the Council's payroll which would not be an efficient use of officer time.

The responsibility for ensuring compliance with HMRC Employment Status regulations and ensuring payments are made through the correct system i.e. Payroll or Accounts Payable more appropriately rests with the relevant Service Manager under the guidance of Human Resources.

This recommendation will be discussed with the Group Manager (People) to identify the most appropriate education and control processes for the future.

- Service lines should be formally reminded that purchase orders should be raised and appropriately approved prior to the goods or services being acquired in order to assist with commitment accounting and budgeting.

Consideration should be given to updating the financial regulations to include this as a requirement.

<u>Management Response</u>
Agreed.

The Council's purchase process is scheduled for review in early 2014 which may result in a move away from the PO method. The level of compliance will be reviewed as part of this exercise. In the interim, judgements must be made by Finance managers as to the level of compliance monitoring it is cost-effective to undertake.

Whilst budget monitoring could be improved by including commitments that would arise from full compliance with the PO process, any risk arising from failure to raise PO's is mitigated by monthly meetings between accountants and budget holders and the calculation of a robust forecast outturn position.

For completeness, the Financial Regulations will be updated to explicitly state that POs should be raised in advance. However, this is more of a technicality and is unlikely to result in increased compliance.

Appendix 3 – Follow-up of Priority 1 Recommendations

The following table summarises the status of priority 1 recommendations raised in 2011/12 and 2012/13 as reported at the April 2013 Audit Committee.

We have concentrated on starting work on the 2013/14 internal audit plan and as yet have not had the opportunity to follow up on progress on these recommendations.

We will continue to follow up progress and will provide an update at the next meeting.

Title	Raised	Implemented	Partly Implemented	Outstanding	No response	Not yet due	No longer applicable
2011/12							
Partnerships	1		1				
IT Security	5	3	2				
2012/13							
Performance Management	1					1	
TOTAL	7	3	3	0	0	1	0

Where the recommendation has not been implemented, this can be for one of the following reasons:

- Partly Implemented – the recommendation had not been fully implemented at the time of the follow up.
- Outstanding – no action has taken place to implement the recommendation.
- Not Yet Due – at the time of the follow up audit, the agreed deadline for implementation had not been reached or had been extended following agreement with senior management. These recommendations will be carried forward to our next follow-up.
- No Response – we have yet to receive a response from the auditee to confirm the implementation of the recommendation.

Partly Implemented and Outstanding Priority 1 Recommendations as at April 2013 Audit Committee Meeting

Partnerships – 2011/12

Sports Trust Delivery Plan & Funding Approval	Priority	Responsible Officer	Revised Date	Follow Up
Recommendation The Dacorum Sport Trust 'Sportspace' should prepare a three year development plan and obtain Portfolio Holder approval for the Dacorum funding contribution. **Date due – 31/12/11** **Observation** The financial commitment to partnerships should be supported by a delivery plan or service level agreement with the partnership. Such plans provide assurance that the Council is obtaining value for money from the partnership. Funding awards should be approved in accordance with the Council's financial regulations to prevent unnecessary or unauthorised partnership expenditure. Audit were not provided with evidence that a delivery plan was in place for 2011 and beyond. Similarly, there was no evidence that the actual financial commitment of £525,000 had been approved by Portfolio Holder or Cabinet prior to	1	Group Manager (Partnerships & Citizen Insight)	31/03/12 Further revised date:30/04/12 Further revised date:30/04/13	**Partly Implemented** **April 2012 update:** This has been delayed by CMT and Cabinet. The Sports Policy statement will go to Cabinet in April 2012. The Sportspace delivery plan and funding agreement is being developed by AD Finance. This is due to be discussed at Sportspace / DBC Annual Meeting in April 2012. Once this is agreed it will be for the AD Finance to seek approval from the Portfolio Holder. **September 2012 update:** Following a strategy planning meeting in April which highlighted some key issues surrounding financing, it was agreed that a new funding arrangement would be arranged. The refinancing relates to requests from Sportspace to carry out extensive refurbishment works in place of receiving the annual grant. Finance are currently in the process of drawing this arrangement up. The

inclusion in the annual budget. However, the funding award is reviewed by officers every year (Deputy 151 Officer, Assistant Director Strategy and Transformation, Group Manager, Sportspace Chief Executive and Finance Director).				3 year strategy will be affected by this change so it will not be developed until the refinancing arrangements have been agreed. It is likely that the refinancing will not be completed before the end of the financial year. **November 2012 update:** This recommendation remains in the forward service plan for completion. It has been delayed because a new funding agreement is being developed by our finance dept relating to our capital investment in Sportspace properties in lieu of ongoing revenue support. Once this is completed it will give the Council a better idea of the status of their future partnership with Sportspace and it will be possible to look at a three year delivery plan.

Information Security – 2011/12

Security of Mobile Phones	Priority	Responsible Officer	Revised Date	Follow Up
Recommendation The Council should consider a stronger and robust policy on the issue and use of mobile phones with the need for adequate security to prevent unauthorised access to information (email and data) in the event that the phone is mislaid or stolen. **Date due – 31/03/12** **Observation** Enhancing security controls on mobile devices helps to ensure that specific standards have been established for portable devices. With the increase in the use of PDAs, Mobile devices and tablet PCs there is a need to enhance security controls to ensure that all users of these devices have appropriate security in place. Mobile devices by their nature are more portable and therefore more at risk to being lost, stolen or left in public places. Currently, the issue of mobile devices is dependent on the procurement policy that is followed and several different types of phones are currently in use at the Council including Smart phones. Users are advised to set passwords/PINs on their phones but it is down to the individual to enforce this setting. If a phone is reported as stolen, it can be disabled so that no more emails are transmitted to the phone and the service provider will be requested to block the phone. Additionally, users have the ability to download documents which once downloaded are stored on the devices which may not be adequately protected.	1	ICT Team Leader	30/11/12 Further revised date: 31/05/13	**Partly Implemented** **April 2012 update:** Mobile PIN's are in place. The Mobile Phone Policy to be refreshed by end April. It was confirmed that a start has been made on refreshing the policy. Device encryption has not commenced and is now anticipated by the end of June 2012. **September 2012 update:** It was confirmed that all phones are now pin protected. The ICT Team leader was due to have meeting with IT to discuss mobile security before e-mail access is rolled out to all staff. **November 2012 update:** This is expected to be completed by the end of November 2012. **January and April 2013 update:** The implementation of this recommendation is ongoing and a revised implementation date has been requested. The revised implementation date is May 2013.

Information Security – 2011/12

Data Sharing Protocol	Priority	Responsible Officer	Revised Date	Follow Up
Recommendation The Council should review its current approach to information sharing with other government agencies, third parties and private providers. This should ensure that: • A review is carried out of the data sharing protocols document that is currently in place to ensure it is updated and reflects the requirements of sharing with third party organisations; • All Departments should be required to formally identify who they share personal data with, the frequency and the form of information that is shared; and • All users and departments should be advised of the revised protocols and to ensure that they are followed. **Date due – 31/05/12** **Observation** A revised data sharing protocol will help ensure that it is in line with current practices and any legal/regulatory requirement. A review of the existing sharing agreements will help ensure that they are still valid and in line with current requirements. Furthermore, identifying all third parties that the Council shares data with would assist in helping to ensure that the Council was aware of the third parties	1	ICT Team Leader	30/11/12 Further revised date: 31/05/13	**Partly Implemented** **September 2012 update:** It was confirmed that the data sharing protocol need to be reviewed. This is expected to be complete by the end of November 2012. **November 2012 update:** The protocol now makes reference to Data Sharing. Work is ongoing to drill down data sharing arrangements to make the strategy more robust. A new implementation date of May 2013 has been requested. **January and April 2013 update:** The recommendation is expected to be completed by the 31st May 2013.

to whom it shared data with and that appropriate monitoring and control systems are in place. There is an Information Exchange Protocol document in place. Attached to this is a list of known contacts for the parties to the protocol. However, it is dated 2001 and has not been reviewed since that date. Furthermore, it is not clear from our audit discussions which areas in the Council have sharing agreements in place and for what areas they cover.				

We will continue to follow up these recommendations and will provide an update at the next Audit Committee meeting.

Appendix 4 – 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 2012/13 internal audit final reports have been implemented.

The table below provide a summary of the status of all 2012/13 recommendations where the proposed implementation date was at or before 30th November 2013 and had not been reported as implemented at the previous Audit Committee meeting.

Title	Raised	Imple-mented	Partly Imple-mented	Comments on Partly Implemented Recommendations	Resp. Officer
2012/13					
Asset Management	5	2	3	We are in the final stages of completing the EC Harris review and the adoption of a new Asset Management Strategy. The plan is to take the document to our January Cabinet. (Original Implementation date: 31/03/13)	ME
Building Control	3	3			
Council Tax	3	3			
Housing Allocations	2	2			
Housing & Council Tax Benefit	5	5			
NNDR	3	3			
Regeneration	6	6			
Performance Management	3	3			
Localisation of Council Tax	2	2			
Procurement Processes	3	3			
Homelessness	3	3			
Section 106	4	4			
Governance & Risk Management	2	2			
Anti-Social Behaviour Processes	9	8	1	The Housing Service is working with the Chartered Institute of Housing to improve the management of reports of anti-social behaviour. As part of this process, the existing ASB procedure is being reviewed and should be completed early 2014. (Original Implementation date: 31/05/13)	AV

As with the outstanding priority 1 recommendations, we have not as yet had the opportunity to follow up the outstanding and partly implemented recommendations from 2011/12, but an update on these will be provided at the next meeting.

Title	Raised	Imple-mented	Partly Imple-mented	Outsta-nding	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	19	5			30/06/12	30/08/13	JW
Partnerships	8	7	1			31/12/11	30/04/13	
Orchard Housing Application	6	4	1		1	31/10/12	01/04/14	AP

Appendix 5 - 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

December 2013