



DACORUM BOROUGH COUNCIL

INTERNAL AUDIT PROGRESS REPORT

Audit Committee – February 12 2014

This report and the work connected therewith are subject to the Terms and Conditions of the contract dated December 2013 between Dacorum Borough Council and Mazars Public Sector Internal Audit Limited. The report is produced solely for the use of Dacorum Borough Council. Its contents should not be quoted or referred to in whole or in part without our prior written consent except as required by law. Mazars Public Sector Internal Audit Limited will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purpose.

CONTENTS

	PAGE
Introduction	1
Background	1
Progress to Date	1
Follow-up of Recommendations	2
Definition of Assurance & Priorities	3
Priority 1 Recommendations	4
Appendix 1 - Status of Audit Work	5
Appendix 2 - Summary of Final Reports	8
Appendix 3 – Follow-up of Priority 1 Recommendations	11
Appendix 4 - Follow-up of Recommendations	12
Appendix 5 - Statement of Responsibility	13

Introduction

This progress report to the Audit Committee covers the work carried out during the period December 19th 2013 to 5th February 2014 by Mazars 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 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

Audit fieldwork on the 2013/14 Internal Audit Plan is progressing well and audit coverage has been in line with the Plan, as shown in Appendix 1.

We have issued 3 final reports in the period since the last audit committee meeting in December 2013 and these are summarised in Appendix 2. These are:

- Treasury Management (Evaluation assurance: **Full**. Testing assurance: **Full**)
- Payroll and Pension Administration (Evaluation assurance: **Full**. Testing assurance: **Substantial**)
- Council Tax (Evaluation assurance: **Full**. Testing assurance: **Substantial**)

We have commenced 3 audits in the period since the last audit committee meeting in December 2013 and these are summarised in Appendix 1. These are:

- Main Accounting
- Housing Rents
- Housing Benefit and Council Tax Support

We have scheduled 4 audits to commence in quarter 4 and these are summarised in Appendix 1. These are:

- NNDR – to commence in February 2014
- HR – to commence in February 2014
- Contract Management – to commence in March 2014
- Corporate Governance – to commence in March 2014

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 and 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 5th February 2014.

Year	Total Recommendations	Implemented	%	Implemented or partly implemented	%
2011/12	143	134*	94	142*	99
2012/13	75	74	99	75	100
Total	218	208	95	217	99





Appendix 3 provides a breakdown of the priority 1 recommendations raised in 2011/12 and 2012/13 audit reports. It also includes details of partly implemented or outstanding Priority 1 recommendations and a further follow up will be carried out in order to report to the next meeting.

It should be noted that progress has been made and a number of recommendations have been implemented since the last audit committee meeting in December 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		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.

Priority 1 Recommendations

No priority 1 recommendations have been raised as a consequence of the final reports issued since the last Audit Committee meeting.

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		Jan							Fieldwork underway	
	Accounts Receivable	Analyzing 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	7	Nov	Final	Full	Full					
	Pay roll and Pension Administration	Assessment of controls over starters, leavers, amendments, expenses, overtime, autoenrolment, voluntary deductions and management of the outsourcing arrangements. CRSA to be applied.	10	10	Nov	Final	Full	Substantial		2			
	Council Tax	To review the controls including liabilities, billing, cash collection, recovery and accounting. CRSA to be applied.	10	10	Jan	Final	Full	Substantial		1	2		
	NNDR	Evaluation of controls including Business Rate Retention Scheme, liabilities, billing, cash collection, recovery and accounting. CRSA to be applied.	10		Feb								ToR issued
	Housing Benefit & Council Tax Support	Review of controls including new claims, size criteria, benefit caps and	10		Jan								Fieldwork underway

Assurance Requirement	Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							Evaluation	Testing	1	2	3	
		discounts, amendments, backdated benefits, payments and reconciliations, considering the application of Universal Credit.										
	Housing Rents	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.	7		Feb							Fieldwork underway
Core Financial Systems Total			75	41								
Operational Risks	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		Mar							ToR issued
	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		Mar							
	Human Resources	Analysis of key controls over recruitment, workforce planning, sickness absence, appraisals and training.	8		Feb							ToR issued
Operational Risks Total			24	0								
Strategic Risks	Corporate Governance	Evaluating the adequacy and effectiveness of corporate governance arrangements in accordance with the CIPFA code of practice.	8		Mar							ToR issued
	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	8	4	Q3/4							Fieldwork underway
	Continuous Auditing	Data analysis scripts will be written on which both identify anomalies as well as comparing the number of	8		Q4							

Assurance Requirement	Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							Evaluation	Testing	1	2	3	
		anomalies occurring on a period by period basis.										
Strategic Risks Total			24	4								
Other	Follow-up of Recommendations	Follow-up of all priority 1 and 2 recommendations made in final reports issued.	5	2								
	Management		12	6								
	Ad Hoc	Contingency allocation to be utilised upon agreement of the Assistant Director (Finance & Resources).	10									
Other Total			27	8								
Total			150	53								

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.

Treasury Management (2013/14)

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

In summary, the scope covered the following areas; Policies, Procedures and Legislation; Treasury Transactions and Records; Cash Flow Forecasting; Investments; Borrowings; System Reconciliations; Management Reporting and Follow up of previous recommendations. Further detail on the scope of the audit is provided in Section 2 of the report.

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

Evaluation Assessment	Testing Assessment
Full	Full

Payroll and Pension Administration (2013/14)

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

In summary, the scope covered the following areas; Policies, Procedures and Legislation; Payroll Transactions and Records; Joiners; Leavers; Variations to Pay, Overtime and Deductions; Reconciliations; Payroll Data to AVDC; Management Information and Performance Indicators; Payment of Fees and Pensions Administration.

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 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 are set out below:

- Expenses should be paid for the correct value and have receipts retained.
- Regular performance reports, value for money assessments and benchmarking exercises should be prepared by AVDC.

Council Tax (2013/14)

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

In summary, the scope covered the following areas: Organisational Structure; Reconciliations; Discounts, Exemptions and Allowances; Amendments to Standing Data and Underlying System Data; Billing; Collection and Refunds; Suspense Account; Debt Recovery Action; Write Offs; Management of Collection Rates 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 one priority 2 and two priority 3 recommendations 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 recommendation is set out below:

- Valuation Office Agency (VOA) schedules should be reconciled to the Council's records three times a year

Appendix 3 – Follow-up of Priority 1 Recommendations

The following table summarises the status of priority 1 recommendations raised in 2011/12 as at 5th February 2014.

Title	Raised	Implemented	Partly Implemented	Outstanding	No response	Not yet due	No longer applicable
2011/12							
Partnerships	1	1					
Health & Safety Follow Up	3	3					
IT Security	5	5					
Project Management	7	7					
TOTAL 2011/12	16	16	0	0	0	0	0

It should be noted that 6 priority one recommendations have been implemented since the last audit committee meeting in December 2013.

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.

The full details of the partly implemented and outstanding recommendations listed above are on the next page.

Appendix 4 – Follow-up of Recommendations

A follow-up audit has been undertaken in accordance with the 2012/13 audit plan. The objective was to confirm the extent to which the recommendations made in 2011/12 and 2012/13 internal audit final reports have been implemented.

The tables below provide a summary of the status of all outstanding 2011/12 and 2012/13 recommendations where the proposed implementation date was at or before 5th February 2014 and had not been reported as implemented at the previous Audit Committee 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	21	3			30/06/12	30/08/13	JW
Orchard Housing Application	6	4	1		1	31/10/12	01/04/14	AP

Title	Raised	Imple-mented	Partly Imple-mented	Comments of Partly Implemented Recommendations	Resp Officer
2012/13					
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

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 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

February 2014

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom. Registered in England and Wales No 4585162.

Mazars Public Sector Internal Audit Limited is a subsidiary of Mazars LLP. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.