



Dacorum Borough Council

Final Internal Audit Report

Corporate Governance

April 2014

This report has been prepared on the basis of the limitations set out on page 9.

CONFIDENTIAL

Distribution List:

James Deane – Assistant Director (Finance and Resources)
Steven Baker – Assistant Director (Chief Executive Unit)
Shane Flynn – Assistant Director (Performance and Projects)
James Doe – Assistant Director – Planning, Development and Regeneration
Martin Hone – Corporate Director
Sally Marshall – Chief Executive

Key Dates:

Date of fieldwork: March 2014
Date of draft report: March 2014
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Contents

1. Executive Summary	1
2. Scope of Assignment	3
3. Assessment of Control Environment.....	4
4. Observations and Recommendations.....	5
Recommendation 1: Financial Regulations (Priority 3).....	5
Appendix A - Reporting Definitions	6
Appendix B - Staff Interviewed.....	7
Statement of Responsibility.....	8

1. Executive Summary

1.1. Background

As part of the Internal Audit programme for 2013/14, we have undertaken an audit of the Council’s systems of internal control in respect of Corporate Governance.

1.2. Audit Objective and Scope

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

In summary, the scope covered the following areas: Financial Governance, Organisational Structure/ Roles and Responsibilities; Decision Making; and Strategy and Planning.

1.3. Summary Assessment

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

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 Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance 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.

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 over Corporate Governance is shown in Section 3.

1.4. Key Findings

We have raised one priority 3 recommendation where we believe there is scope for improvement within the control environment. These are set out below:

- The Financial Regulations should be reviewed and updated where necessary. (Priority 3)

Full details of the audit findings and recommendations are shown in Section 4 of the report

1.5. **Management Response**

We have received the management responses and have included them in our Final report.

1.6. **Acknowledgement**

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 Corporate Governance, 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:

- *Financial Governance*
To confirm that the Council's financial procedures and regulations are accurate, up to date and support the Constitution and aims and priorities.
- *Organisational Structure / Roles and Responsibilities*
To confirm that the Council has an open and transparent organisational structure and that roles and responsibilities are clearly defined and communicated across the organisation.
- *Decision Making*
To confirm that there is a clear and transparent decision making process within the Council and decisions taken adhere to these processes.
- *Strategy and Planning*
To confirm that Council's strategies are up to date and communicated across the organisation. To confirm that strategies complement and support each other and are linked to key aims and priorities.

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.

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

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Financial Governance			Recommendation 1
Organisation Structure/ Roles and Responsibilities			
Decision Making			
Strategy and Planning			

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: Financial Regulations (Priority 3)

<p>Recommendation</p> <p>The Financial Regulations should be reviewed and updated where necessary to reflect the changes in the organisation.</p>
<p>Observation</p> <p>The Financial Regulations provide a framework for managing the financial affairs of the Council. They are approved by Council and apply to every Member and employee of the Council or to anyone acting on its behalf. These Regulations should comply with CIPFA guidelines, Local Authority Best Practice and the Council’s internal processes.</p> <p>It was identified that the Council’s Financial Regulations had last been updated in November 2011. Examination of the regulations identified that the document owner referred to the previous Assistant Director (Finance and Resources) and the current Chief Executive was referred to as Director (Finance and Resources). It should also be noted that there have recently been a number of changes in senior management and structure within the Council.</p> <p>Where the Financial Regulations are not reviewed and updated at regular intervals, there is a risk that incorrect working practices are followed which may be in breach of legislative and organisation requirements.</p>
<p>Responsibility</p> <p>Assistant Director – Finance and Resources</p>
<p>Management response / deadline</p> <p>Agreed.</p> <p>Under normal circumstances the Financial Regulations would have been revised in November 2013. On this occasion, however, the revision was postponed to provide an opportunity for the newly appointed S151 Officer to become familiar with the organisation to the extent that he could contribute fully to the next revision.</p> <p>The amended job titles following the organisational restructure in late 2013 do not affect the validity of the Financial Regulations, due to paragraph 1.10 which states that all responsibilities reside with the S151 Officer rather than the Corporate Director role. This paragraph is specifically included to ensure that the Regulations remain relevant in the case of role changes.</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:

- Steven Baker - Assistant Director (Chief Executive Unit)
- Elliott Brookes - Assistant Director (Housing)
- James Deane - Assistant Director (Finance and Resources)

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

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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