



## **DACORUM BOROUGH COUNCIL**

## **INTERNAL AUDIT PROGRESS REPORT**

### **Audit Committee – April 30 2014**

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# Introduction

This progress report to the Audit Committee covers the work carried out during the period February 5<sup>th</sup> 2014 to April 22<sup>nd</sup> 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 completed all the audits contained in the 2013/14 Audit plan, as shown in Appendix 1.

We have issued 8 final reports in the period since the last audit committee meeting in February 2014 and these are summarised in Appendix 2. These are:

- Housing Rents (Evaluation assurance: **Full**. Testing assurance: **Substantial**)
- Main Accounting (Evaluation assurance: **Full**. Testing assurance: **Substantial**)
- Corporate Governance (Evaluation assurance: **Full**. Testing assurance: **Full**)
- NNDR (Business Rates) (Evaluation assurance: **Full**. Testing assurance: **Substantial**)
- Human Resources (Evaluation assurance: **Substantial**. Testing assurance: **Substantial**)
- Housing Benefits and Council Tax Support (Evaluation assurance: **Full**. Testing assurance: **Substantial**)
- Planning (Evaluation assurance: **Full**. Testing assurance: **Substantial**)
- Contract management (Evaluation assurance: **Full**. Testing assurance: **Limited**)

## 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 and 2013/14 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 5<sup>th</sup> February 2014.

Year	Total Recommendations	Implemented	%	Implemented or partly implemented	%
2011/12	143	134*	94	142*	99
2012/13	75	75	100	75	100
2013/14					
<b>Total</b>	<b>218</b>	<b>209</b>	<b>96</b>	<b>217</b>	<b>99</b>





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
<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 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
<b>Priority 1</b>	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
<b>Priority 2</b>	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
<b>Priority 3</b>	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
<b>System Improvement Opportunity</b>	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

## Priority 1 Recommendations

We have raised one 1 recommendation as a consequence of the final reports issued since the last Audit Committee meeting. The recommendation raised was in relation to the Contract Management audit and was as follows:

Key Performance Indicators as specified in contracts between the Council and service providers should be formally monitored and recorded. (*Priority 1*)

## 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	
<b>Core Financial Systems</b>	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	7	Jan	Final	Full	Substantial		1		
	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	7	Nov	Final	Full	Full				
	Payroll and Pension 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	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	10	Feb	Final	Full	Substantial		2	1	

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.	10	10	Jan	Final	Full	Substantial		1	2	
	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	7	Feb	Final	Full	Substantial		1	1	
<b>Core Financial Systems Total</b>			<b>75</b>	<b>75</b>								
<b>Operational Risks</b>	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	8	Mar	Final	Full	Limited	1	2		
	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	8	Mar	Final	Full	Substantial		3	1	
	Human Resources	Analysis of key controls over recruitment, workforce planning, sickness absence, appraisals and training.	8	8	Feb	Final	Substantial	Substantial		3		
<b>Operational Risks Total</b>			<b>24</b>	<b>24</b>								
<b>Strategic Risks</b>	Corporate Governance	Evaluating the adequacy and effectiveness of corporate governance arrangements in accordance with the CIPFA code of practice.	8	8	Mar	Final	Full	Full			1	



Assurance Requirement	Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							Evaluation	Testing	1	2	3	
	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	8	Q3/4							
	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							
<b>Strategic Risks Total</b>			<b>24</b>	<b>16</b>								
Other	Follow-up of Recommendations	Follow-up of all priority 1 and 2 recommendations made in final reports issued.	5	5								
	Management		12	12								
	Ad Hoc	Contingency allocation to be utilised upon agreement of the Assistant Director (Finance & Resources).	10									
<b>Other Total</b>			<b>27</b>	<b>15</b>								
<b>Total</b>			<b>150</b>	<b>132</b>								

Note: the audit plan is complete. The 10 days for ad-hoc was not used and the 8 days for continuous auditing has been rolled over into 14/15 for inclusion in a larger project.

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## 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.

### Housing Rents (2013/14)

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

In summary, the scope covered the following areas: Policies and Procedures; Rent Debits; Rent Receipts; Rent Arrears; Manual Adjustments; Reconciliations with the General Ledger and Follow up of Previous Audit Recommendations.

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	Substantial

We have raised one priority 2 and one priority 3 recommendation where we believe there is scope for improvement within the control environment. These are set out below:

- Procedure notes should be developed and kept up to date for the Rent Arrears and Rent Refund processes. (Priority 3)
- Refund request forms should be signed by the rent payer, scanned onto the system and filed in a logical/consistent manner. (Priority 2)

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## Main Accounting (2013/14)

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

In summary, the scope covered the following areas: Policies, Procedures and Legislation, IT Systems and Security, Reliability and Integrity of Transactions (Reconciliations), Journal Entries and Manual Adjustments, Year-end Procedures and Follow Up of Previous Recommendations.

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	Substantial

We have raised one priority 2 recommendation where we believe there is scope for improvement within the control environment. These are set out below:

- Virements should be authorised at the appropriate level and evidence of authorisation retained. (Priority 2)

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**Corporate Governance (2013/14)**

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.

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

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

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

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**NNDR (Business Rates) (2013/14)**

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

In summary, the scope covered the following areas: policy, procedures and legislation; NNDR transactions and records; organisational structure; reconciliation between debit and the valuation list; discount and reduction applications; billing; receipts from the rate payers; clearing suspense account; recovery action; writing off irrecoverable debt; monitoring of collection rates; reconciliation with the general ledger; refunds; voids allowances and retrospective reliefs; amendments to standing data and follow up previous audit recommendations.

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	Substantial

We have raised two priority 2 recommendations and one priority 3 recommendation where we believe there is scope for improvement within the control environment. These are set out below:

- Procedure notes should be documented for the Business Rates function. Furthermore, the procedure notes should be reviewed on a regular basis and version controlled. *(Priority 3)*
- The Business Rates discount or reduction application form should be completed for all discounts and the forms should be retained *(Priority 2)*
- All refunds should be authorised in line with Council authorisation levels . *(Priority 2)*

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**Human Resources (2013/14)**

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

In summary, the scope covered the following areas: Policies, Procedures and Legislation, HR Transactions and Records, Pre-employment Checks, Contracts of Employment and Training. Further detail on the scope of the audit is provided in Section 2 of the report.

<b>Evaluation Assessment</b>	<b>Testing Assessment</b>
Substantial	Substantial

We have raised three priority 2 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- All new staff should complete the mandatory training requirements within three months of starting their employment. They should be informed of where, how and in what time frame the training should be completed. Additionally, an email reminder one month before deadline if they have not completed the training. (Priority 2).
- Monthly reports should be run on the Dacorum On-Line Resource for Interactive Study (DORIS) system which show which employees have not completed the mandatory training. All staff identified as having not completed the mandatory training should be contacted and reminded of the need to do so. (Priority 2)
- HR Policies and Procedures should be regularly reviewed and updated and should be made readily available to the relevant members of staff. (Priority 2).

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**Housing Benefits and Council Tax Support (2013/14)**

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Housing Benefits and Council Tax Support, and provide guidance on how to improve current the controls going forward.

In summary, the scope covered the following areas: Administration and Assessment of Claims; Reviews; Local Housing Allowance; Backdated Benefits; Discretionary Payments/Council Tax Support; Payments; Cheque Management; Cancellations, Overpayments and Recovery Action; Quality Control; Fraud Management; System Reconciliations; Performance Reviews and Follow up of Previous Audit Recommendations. Further detail on the scope of the audit is provided in Section 2 of the report.

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	Substantial

We have raised two priority 2 and one priority 3 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- Supporting documentation should be received and retained for all new claims. (Priority 3)
- Procedure notes should be reviewed and updated to help ensure that staff follow correct working practices. (Priority 3)
- Write offs should be processed in accordance with the Financial Regulations. (Priority 2)

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**Planning (2013/14)**

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

In summary, the scope covered the following areas: Policy, Procedures and Legislation; Processing of Applications; Fees and Income; Decision making; Appeals and Management Reporting.

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	Substantial

We have raised one priority 3 recommendations and three priority 2 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- Applications that are received through the postal system should be date stamped to confirm the date they were received. (Priority 3)
- A documentation checklist should be compiled and completed for every Planning application. The checklist should be retained and signed off by the officer that completed the validation checks. (Priority 2)
- Decisions made regarding Planning applications should be made within the legislative requirement of 8 or 13 weeks depending on the application type. Where it is not possible to comply with legislative requirements, a reason should be documented in the officer’s report and extensions should be agreed in writing. (Priority 2).
- The outcome of planning application appeals should be updated on to the Council’s Acolaid system, and a reconciliation should be undertaken on a regular basis to ensure that the information displayed by the Planning Inspection website is in line with that on Dacorum Borough Councils website and the Councils Performance system. (Priority 2)



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**Contract Management (2013/14)**

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

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	Limited

We have raised one priority 1 recommendation and two priority 2 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- The meetings held between the Council and the Contractor should be documented and recorded as formal meeting minutes and/or action notes. *(Priority 2)*
- Key Performance Indicators as specified in contracts between the Council and service providers should be formally monitored and recorded. *(Priority 1)*
- Contracts which are defined as being of key importance to the Council should be identified and the performance of these contracts should reported formally to the Council on a regular basis. *(Priority 2)*

## Appendix 3 – 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 22<sup>nd</sup> April 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
<b>2011/12</b>								
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

Note:

Contacted John Worts regarding the recommendations listed above for IT Disaster recovery and IT Security. To date no further response since the last audit committee.

Orchard Housing Application – contacted Allan Parry – regarding the partly implemented recommendation. Unable to provide further information. Stated that the Orchard system is no longer used as the current system for Housing Applications, therefore is the recommendation now No Longer Relevant.

Title	Raised	Imple-mented	Partly Imple-mented	Comments of Partly Implemented Recommendations	Resp Officer
<b>2012/13</b>					
Anti-Social Behaviour Processes	9	9			AV

All the recommendations raised in the 2012/13 audit reports have been implemented.

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.

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## 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**

**April 2014**

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