

# Dacorum Borough Council

## Final Internal Audit Report

### Main Accounting

February 2014

This report has been prepared on the basis of the limitations set out on page 8.

CONFIDENTIAL

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**Key Dates:**

Date of fieldwork: February 2014

Date of draft report: February 2014

Receipt of responses: February 2014

Date of final report: February 2014

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# 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 Main Accounting.

## 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 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. Further detail on the scope of the audit is provided in Section 2 of the report.

## 1.3. Summary Assessment

Our audit of DBC’s internal controls operating over Main Accounting found that there is a sound system of internal control designed to achieve the system objectives. However, there is evidence that non-compliance with a control may put some of the system objectives at risk.

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        |

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 Main Accounting is shown in Section 3.

## 1.4. Key Findings

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)

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

1.5. **Management Responses**

We will include a summary of any management response 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 Main Accounting, 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; and
- identification of control weaknesses and potential process improvement opportunities;

### 2.3. Areas Covered













The audit was carried out to evaluate and test controls over the following areas:

- *Policies, Procedures and Legislation*  
The Main Accounting function is effectively managed and that statutory obligations and CIPFA guidance are complied with.
- *IT Systems and Security*  
Systems and data are adequately protected and to prevent unauthorised access.
- *Reliability and Integrity of Transactions (Reconciliations)*  
Information held on the general ledger is correct and allows the Council officers and members to make efficient and effective decisions.
- *Journal Entries and Manual Adjustments*  
Journal entries and adjustments are correct, authorised and complete.
- *Year End Procedures*  
All appropriate action is taken to establish the complete and accurate financial position prior to the Annual Report and Accounts being prepared.
- *Follow-up Previous Audit Recommendations*  
Recommendations raised in the previous audit report have been implemented.

### 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  |
|---|---|---|-------------------------|
| Policies, Procedures and Legislation                        |    |    |                         |
| IT Systems and Security                                     |    |    |                         |
| Reliability and Integrity of Transactions (Reconciliations) |    |    |                         |
| Journal Entries and Manual Adjustments                      |   |   | <b>Recommendation 1</b> |
| Year End Procedures   |  |  |                         |
| Follow up   |  |  |                         |

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: Appropriate Authorisation of Virements (Priority 2)

|  |
|--|
| <p><b>Recommendation</b></p> <p>Staff should be formally reminded that virements should be authorised in accordance with the Council’s Authorisation Schedule included within the Financial Regulations.</p> <p>Management should carry out sample checks on virements processed to verify appropriate authorisation had been obtained and take corrective action where necessary.</p>   |
| <p><b>Observation</b></p> <p>The Financial Regulations ‘Schedule of Authorisation’ states that “Virements between General Fund and Housing Revenue Account must be approved by Council. Virements between supplementary budgets funded from corporate and service-based reserves and balances must be approved by Council. Virements between Cabinet Portfolios must be approved by Cabinet. Virements between Services within a Portfolio must be approved by the affected Director(s) and Portfolio Holder. Virements between budgets falling to the responsibility of an individual Group Manager must be approved by the affected Director(s) and Group Manager(s). Virements between allowed budget lines within each defined service must be approved by the affected Director and Group Manager. For the above three types of virements where the amount to be vired is at least £10,000 and 10% of the transferring budget they must be approved by Cabinet. All proposed virements shall be subject to review and comment by the Section 151 Officer.”</p> <p>Examination of a sample of 10 virements identified that in two instances evidence of authorisation could not be obtained at any level, namely for virement references 267 (£74,500) and 298 (£31,500).</p> <p>Where virements are not appropriately authorised and evidenced, there is a risk that invalid, incorrect or unauthorised virements may be processed resulting in the production of incorrect or misleading accounting and budget monitoring information.</p> |
| <p><b>Responsibility</b></p> <p>Team Leader – Financial Planning &amp; Analysis</p>  |
| <p><b>Management response / deadline</b></p> <p>Agreed.</p> <p>A number of changes have been made to the process for authorising virements, since this issue was identified.</p> <p>The virement log maintained by Finance now includes details of the relevant approval.</p> <p>The workflow for virements within the Financial Management System (Agresso) has been amended. Essentially the Team Leader - Financial Planning &amp; Analysis now receives all virements to authorise. They then cross-check to ensure that the appropriate approvals are in place, in line with the financial regulations.</p> <p>The changes minimise the chance of the same issue recurring and also improve the transparency of the audit trail.</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  |
|--------------------|---|--|---|
| <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. |



## Appendix B - Staff Interviewed

The following personnel were consulted:

Richard Baker - Regulatory & Financial Accounting Team Leader

## 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**

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