

Dacorum Borough Council

Final Internal Audit Report

Asset Management

September 2014

This report has been prepared on the basis of the limitations set out on page 12.

CONFIDENTIAL

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Key Dates:

Date of fieldwork: July 2014
Date of draft report: July 2014
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Date of final report: September 2014

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1. Executive Summary

1.1. Background

As part of the Internal Audit programme for 2014/15, we have undertaken an audit of the Council's systems of internal control in respect of Asset Management.

Asset management, broadly defined, refers to any system whereby things that are of value to an entity or group are monitored and maintained. It may apply to both tangible assets and to intangible concepts, such as intellectual property and goodwill. Asset management is a systematic process of operating, maintaining, and upgrading assets cost-effectively.

Dacorum Borough Council maintains a Fixed Asset Register which is maintained by the Finance Department; this is carried out in conjunction with the Building Services and Valuation & Estates departments.

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 Asset Management, and provide guidance on how to improve current the controls going forward.

In summary, the scope covered the following areas: Policy, Procedures and Legislation; Reconciliation and access to the ledger; Revaluations and Impairments; Verification of assets; and Disposal, Write offs and depreciation.

Summary Assessment

Our audit of DBC's internal controls operating over Asset Management found that there is a sound system of internal control designed to achieve the system objectives and the controls are being consistently being 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 Asset Management is shown in Section 3.

1.3. Key Findings

We have not raised any recommendations in this audit report.

1.4. **Management Response**

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

1.5. **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 Asset Management, 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:

- *Policies, procedures and legislation*
The Council complies with relevant legislation and staff members have access to policies and procedures that apply to the management of the Council's assets and that there is a Capital Strategy and Asset Management Plan in place.
- *Reconciliation and access to the register*
The Fixed Asset Register is reconciled to the Council's records held within the General Ledger so that the accounts can be produced in a timely and accurate manner. The completion of the Fixed Asset Register is included in the timetable for the closure of accounts. The Fixed Asset Register and capital accounting data is regularly backed up and access to the system is restricted.
- *Revaluations and impairments*
Properties are regularly valued by professional staff and the new valuations are recorded on the Fixed Asset Register and returns on impairment are recorded.
- *Verification of assets*
There is a verification process in place for all assets held by the Council.
- *Disposal, write-offs and depreciation*
The Fixed Asset Register is amended for additions, disposals and write offs; that depreciation and notional interest are calculated by a formula and the formula is robust. Capital charges are allocated to department budgets.

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
Policy, Procedure and Legislation			
Reconciliation and access to the ledger			
Revaluations and Impairments			
Verification of assets			
Disposals, write offs and depreciation			

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

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:

- Mike Evans - Group Manager (Commercial Assets and Property Development)
- Richard Baker - Group Manager (Financial Services)

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

September 2014

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