



Dacorum Borough Council

Final Internal Audit Report

Budgetary Control

October 2014

This report has been prepared on the basis of the limitations set out on page 11.

CONFIDENTIAL

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Key Dates:

Date of fieldwork: September 2014
Date of draft report: September 2014
Receipt of responses: October 2014
Date of final report: October 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 Budgetary Control.

The 2014/15 budget was approved by the Cabinet on 11 February 2014 and recommended for approval by the full Council on 26 February 2014. There are a total of 26 budget holders at the Council. Monthly meetings between budget holders and an accountant occur where variances and forecasts are discussed. These meetings are minuted and copies of the minutes are retained by the Finance Team. Quarterly budget monitoring reports are sent to the Cabinet and the Overview and Scrutiny Committee.

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 Budgetary Control, and provide guidance on how to improve current the controls going forward.

In summary, the scope covered the following areas: Policies, procedures and legislation; budget setting; budget upload; budget monitoring; virements and alterations; and management information. 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 Budgetary Control found that there is a sound system of internal control designed to achieve the system objectives. However, there is evidence that the level of non-compliance with some of the controls 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 Budgetary Control is shown in Section 3.

1.4. Key Findings

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

- The reconciliation between approved budgets and budgets uploaded onto Agresso should be signed off to indicate approval. In addition, discrepancies identified during the reconciliation should be clearly explained.

Budgets should be uploaded onto the Agresso system in a timely manner and evidence of this should be retained by the Finance team. (Priority 2)

- All Budget Holder meeting notes should be written up for each meeting with the accountants. (Priority 3)
- All virements should be processed and authorised in line with the Council's Financial Regulations. Budget holders should be reminded of the need to comply with the requirements of the Council's Financial Regulations when authorising Virements. (Priority 2)

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 Budgetary Control, 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:*
All members of staff act consistently in compliance with the legislative and management requirements and the administration of the budget setting and control functions are conducted in an economic, efficient and effective manner. Responsibility for managing budgets is clearly established and is delegated to appropriately qualified, trained and competent staff.
- *Budget Setting:*
Budgets are set and funds allocated so as to achieve the organisations strategic and operational objectives. Where savings are required, budget holders have identified appropriate efficiencies to meet the savings required. The means of achieving the savings are approved and included in the setting of the budget for the respective services.
- *Budget Upload:*
Budgets are appropriately approved and are completely and accurately loaded onto the financial management system in a timely manner. Budgets are communicated to all the relevant parties to allow effective monitoring by budget holders.
- *Budget Monitoring:*
Robust procedures are in place for the monitoring of budgets. Any variances identified are investigated and remedial action taken where appropriate so as to minimise the risk of budget under / over spends. All savings offered are being monitored to ensure realisation.

- *Budget Alterations and Virements:*

Budget alterations and virements are completely, accurately, and validly processed in a timely manner and supporting documentation retained to support the actions taken.













- *Management Information:*

Timely and accurate financial information is produced on a regular basis and is reported to the appropriate forum to facilitate effective monitoring and decision making.

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 |  |  | |
| Budget Setting |  |  | |
| Budget Upload |  |  | Recommendation 1 |
| Budget Monitoring |  |  | Recommendation 2 |
| Virements and Alterations |  |  | Recommendation 3 |
| Management Information |  |  | |

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: Budget Upload (Priority 2)

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|---|
| <p>Recommendation</p> <p>The reconciliation between approved budgets and budgets uploaded onto Agresso should be signed off to indicate approval. In addition, discrepancies identified during the reconciliation should be clearly explained.</p> <p>Budgets should be uploaded onto the Agresso system in a timely manner and evidence of this should be retained by the Finance team.</p> |
| <p>Observation</p> <p>Signing off the reconciliation between the approved budget and uploaded budget, and clearly explaining the reasoning behind any discrepancies in the reconciliation, will help to ensure that budgets are uploaded in a complete and accurate manner. Retaining evidence of the budget upload date onto Agresso will help to ensure that budgets are uploaded in a timely manner.</p> <p>Examination of the approved budget for 2014/15 and the uploaded budget onto Agresso identified that there was no evidence of a sign off of the reconciliation. In addition a £5,000 discrepancy was identified in the reconciliation process which, although we were informed was due to rounding, we could not determine in full. Furthermore, whilst we were informed that the budget was uploaded onto Agresso in a timely manner, evidence of this could not be obtained, and so this could not be verified.</p> <p>Where reconciliations are not signed off, and discrepancies identified in the reconciliation process are not clearly explained, there is a risk that inaccurate figures are recorded onto the Agresso system, which could lead to financial loss to the Council. Where budgets are not loaded onto the system in a timely manner and evidence of this retained, there is a risk of ineffective budget management.</p> |
| <p>Responsibility</p> <p>Team Leader – Financial Planning & Analysis</p> |
| <p>Management response / deadline</p> <p>Agreed.</p> <p>The reconciliation sign-off will be completed for the 2015/16 budget and evidence of the upload date will be retained.</p> <p>February 2015</p> |

Recommendation 2: Budget Holder Meetings (Priority 3)

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| <p>Recommendation</p> <p>All Budget Holder meeting notes should be written up for each meeting with the accountants.</p> |
| <p>Observation</p> <p>Recording meeting notes for each budget holder meeting with the accountants will help to ensure that any variances are identified and discussed in detail. Recording meeting minutes will also help to ensure effective budget management and provide a clear record of matters discussed.</p> <p>Examination of a three month period for a sample of three budget holders identified that in one case a budget holder had met with their accountant, however, no meeting minutes had been drawn up for two out of the three months. For these two months, notes had been made on the monitoring reports, however, these were not sufficiently detailed and as such we were unable to evidence that meetings had occurred.</p> <p>Where detailed meeting notes are not recorded for each budget holder meeting there is a risk of ineffective budget monitoring, whereby variances are not discussed in detail and closely monitored.</p> |
| <p>Responsibility</p> <p>Team Leader – Financial Planning & Analysis</p> |
| <p>Management response / deadline</p> <p>Agreed to implement immediately.</p> |





Recommendation 3: Virement Authorisation (Priority 2)

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|--|
| <p>Recommendation</p> <p>All virements should be processed and authorised in line with the Council's Financial Regulations. Budget holders should be reminded of the need to comply with the requirements of the Council's Financial Regulations when authorising Virements.</p> |
| <p>Observation</p> <p>Processing and authorising virements in line with Financial Regulations will help to ensure that only valid and complete virements are made, and ensure compliance with the key requirements of the regulations.</p> <p>Examination of a sample of six virements in the 2014/15 financial year and the authorisation limits set out in the Financial Regulations identified the following exceptions:</p> <ul style="list-style-type: none"> • In one case a virement of £8,210 was made on 06/05/2014. The Council's Financial Regulations were updated in May 2014 and we were informed that this virement was made under the old Financial Regulations dated November 2011. The old regulations stated that this virement required approval from the Director, Group Manager and Section 151 officer. Examination of the virement form completed for this virement identified that the virement was authorised by the Assistant Director, Group Manager and Section 151 officer; and • In one case a virement of £13,000 was made on 08/07/2014. This virement was made under the new Financial Regulations dated May 2014. The new regulations stated that this virement required approval from the Director, Group Manager and Section 151 officer. Examination of the virement form completed for this virement identified that the virement was authorised by the Assistant Director, Group Manager and Section 151 officer. <p>Where virements are not made in line with financial regulations there is a risk that invalid virements are made. In addition, failure to comply with Financial Regulations could lead to reputational damage to the Council.</p> |
| <p>Responsibility</p> <p>Team Leader – Financial Planning & Analysis</p> |
| <p>Management response / deadline</p> <p>This recommendation was agreed to be implemented immediately.</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:

- Richard Baker - Group Manager (Finance)
- Marie Stokes – Team Leader – Financial Planning and Analysis Team
- Caroline Souto – Accountant – Finance and Operations
- Ben Trueman – Budget Holder
- David Austin – Budget Holder
- Chris Troy – Budget Holder
- Ben Hosier – Budget Holder
- Chris Taylor – Budget Holder

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

October 2014

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