

# Audit Agenda



**Wednesday 19 July 2017 at 7.30 pm**

**Conference Room 2 - The Forum**

The Councillors listed below are requested to attend the above meeting, on the day and at the time and place stated, to consider the business set out in this agenda.

#### Membership

Councillor Brown  
Councillor Douris  
Councillor McLean

Councillor Taylor (Chair)  
Councillor Tindall  
Councillor W Wyatt-Lowe

#### Substitute Members:

Councillors G Adshead, Anderson, England, Link and Ransley

For further information, please contact Jim Doyle [jim.doyle@dacorum.gov.uk](mailto:jim.doyle@dacorum.gov.uk)

## **AGENDA**

### **1. MINUTES AND ACTIONS**

To confirm the minutes of the previous meeting and consider the actions

### **2. APOLOGIES FOR ABSENCE**

To receive any apologies for absence

### **3. DECLARATIONS OF INTEREST**

To receive any declarations of interest

A member with a disclosable pecuniary interest or a personal interest in a matter who attends a meeting of the authority at which the matter is considered -

- (i) must disclose the interest at the start of the meeting or when the interest becomes apparent

and, if the interest is a disclosable pecuniary interest, or a personal interest which is also prejudicial

- (ii) may not participate in any discussion or vote on the matter (and must withdraw to the public seating area) unless they have been granted a dispensation.

A member who discloses at a meeting a disclosable pecuniary interest which is not registered in the Members' Register of Interests, or is not the subject of a pending notification, must notify the Monitoring Officer of the interest within 28 days of the disclosure.

Disclosable pecuniary interests, personal and prejudicial interests are defined in Part 2 of the Code of Conduct For Members

[If a member is in any doubt as to whether they have an interest which should be declared they should seek the advice of the Monitoring Officer before the start of the meeting]

#### **4. PUBLIC PARTICIPATION**

An opportunity for members of the public to make statements and ask questions in accordance with the rules as to Public Participation

#### **5. STATEMENT OF ACCOUNTS 2016/17 - UPDATE**

Report to follow.

#### **6. EXTERNAL AUDIT PROGRESS REPORT**

Report to follow.

#### **7. AUDIT FUNDING**

Report to Follow

#### **8. INTERNAL AUDIT PROGRESS REPORT (Pages 4 - 36)**

The Progress report is enclosed and the following Internal Audit Reports will be considered:

- ·Housing Rents
- ·Dacorum Borough Council Leisure Services Procurement Assurance Review
  
- ·Cyber Essentials – To follow

**9. AUDIT COMMITTEE WORK PROGRAMME 2017/18 (Pages 37 - 39)**

# Agenda Item 8



## **DACORUM BOROUGH COUNCIL**

## **INTERNAL AUDIT PROGRESS REPORT**

## **Audit Committee – July 19 2017**

This report and the work connected therewith are subject to the Terms and Conditions of the contract dated 1<sup>st</sup> April 2015 between Dacorum Borough Council and Mazars Public Sector Internal Audit Limited. The report is produced solely for the use of Dacorum Borough Council. Its contents should not be quoted or referred to in whole or in part without our prior written consent except as required by law. Mazars Public Sector Internal Audit Limited will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purpose.

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## Introduction

This progress report to the Audit Committee covers the work carried out during the period April 1st to June 30th 2017 by Mazars Public Sector Internal Audit Limited.

Appendix 1 outlines progress to date against the 2017/18 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 2017/18 Internal Audit Plan is progressing well and audit coverage has been in line with the Plan, as shown in Appendix 1.

We have issued the following Final reports:

- Housing Rents (Evaluation assurance: **Full**. Testing assurance: **Substantial**);
- Cyber Essentials (Evaluation assurance: **Full**. Testing assurance: **Substantial**);
- Leisure Services Procurement Assurance Review.

## Follow-up of Recommendations

### 2016/17

The table below details the recommendations raised in the audit reports for 2016/17. The summary of the outcome of our follow up work to the 30<sup>th</sup> June 2017 is shown in the table below:





Year	Total Recommendations	Implemented / no longer relevant	%	Implemented / partly implemented / no longer relevant	%
2016/17	45	30	67%	30	67%
<b>Total</b>	<b>45</b>	<b>30</b>	<b>67%</b>	<b>30</b>	<b>67%</b>

Appendix 2 provides a summary of the status of all recommendations where the proposed implementation date was before 30<sup>th</sup> June 2017.

## 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

No Priority 1 recommendations have been raised in the final reports issued since the last Audit Committee meeting.

## Appendix 1 – Status of Audit Work 2017/18

Page 10

	Area	Scope	Plan Days		Start of Fieldwork	Status	Opinion		Recommendations			Comments
				Days Delivered			Evaluation	Testing	1	2	3	
<b>Core Financial Systems</b>	Main Accounting	Audits previously given Full Assurance: the audit will cover the adequacy and effectiveness of the Key Controls in place across the four areas.  Other controls tested will include any new controls operating for the first time in 2017/18, any controls where there is perceived to be a weakness, and a judgmental sample of other controls in operation across the four areas.	15		Q3							
	Treasury Management, Cash & Bank											
	Accounts Receivable											
	Accounts Payable											
	Budgetary Control	To cover strategic approach to co-ordinating budgetary control, monitoring and reporting, and also testing a sample of departments.	7		Q4							
	Council Tax	Covering adequacy and effectiveness of controls including liabilities, billing, cash collection, recovery and accounting. CRSA to be applied.	8		Q3							
	NNDR	Covering adequacy and effectiveness of controls including Business Rate Retention Scheme, liabilities, billing, cash collection, recovery and accounting. CRSA to be applied.	6		Q3							
	Housing Benefit and Council Tax Support	Covering adequacy and effectiveness of controls including new claims, size criteria, benefit caps, amendments, backdated benefits, payments and reconciliations. CRSA to be applied.	10		Q4							
<b>Core Financial Systems Total</b>			<b>46</b>									

	Area	Scope	Plan Days		Start of Fieldwork	Status	Opinion		Recommendations			Comments
				Days Delivered			Evaluation	Testing	1	2	3	
Operational Risks	Empty Homes	Covering adequacy and effectiveness of controls over management of the empty homes process, including statutory checks.	10		Q3							
	Community Infrastructure Levy	Covering adequacy and effectiveness of controls over the introduction of the levy, including its forecasting, collection and accounting processes.	10		Q4							
	Housing Rents	Covering adequacy and effectiveness of controls over the management of housing rents and service charges, including collection of rent arrears.	10	10	Q1	Final Issued	Full	Substantial	-	1	1	
	Off-Payroll Engagement	Specific audit of the authority's arrangements to review and record the intermediary status of existing and future personal service companies (PSC).	5	3	Q1	Work in Progress						
<b>Operational Risks Total</b>			<b>35</b>	<b>13</b>								
Strategic Risks	Information Governance	Covering adequacy and effectiveness of controls over the preparations for General Data Protection Regulation, compliance with the Freedom of Information Act and Transparency.	15		Q2							
	Community Contracts	Partnership / contract management assurance in respect of new Community Contracts. A sample of projects in the programme will be selected.	15		Q2							

	Area	Scope	Plan Days		Start of Fieldwork	Status	Opinion		Recommendations			Comments
				Days Delivered			Evaluation	Testing	1	2	3	
	Capital Programme	To review the Council's controls in place to prevent slippage of significant capital projects. The review will also look at the whole approach that the Council takes with a focus on particular projects.	14		Q3							
<b>Strategic Risks Total</b>			<b>44</b>									
<b>Governance, Fraud &amp; other Assurance Methods</b>	Governance and Risk Management	The use of CRSA to provide assurance that managers understand their requirements and take ownership of their responsibilities.	10		All							
	Counter Fraud	Internal Audit will continue to work with the Council in the development of a fraud risk register, the provision of fraud awareness training, pro-active fraud exercises, etc.	10		All							
	Continuous Auditing/Data Mining	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. Suggested areas of review are Payroll and Asset Management.	12		Q2-4							
	Benefits/Savings Realisation	To provide assurance that processes are in place to measure such initiatives. Suggested areas of review are the CSU and PAYE/VAT health checks.	10		Q3							
<b>Governance, Fraud &amp; other Assurance Methods</b>			<b>42</b>									

	Area	Scope	Plan Days		Start of Fieldwork	Status	Opinion		Recommendations			Comments
				Days Delivered			Evaluation	Testing	1	2	3	
ICT	ICT Cyber Security (Cyber Essentials)	The specific scope will be agreed with management but would look to provide assurance over policies and procedures, access controls and incident management.	15	15	Q1	Final Issued	Full	Substantial	-	1	3	
	Social Media	The review will focus on governance, policies, procedures, training and awareness functions related to social media	15		Q3							
<b>ICT total</b>			<b>30</b>	<b>15</b>								
Other	Follow-up of Recommendations	Follow-up of all priority 1 and 2 recommendations made in final reports issued.	10	3								
	Management (including Audit Committee Training)		22	4								
	Ad Hoc	Contingency allocation to be utilised upon agreement of the Assistant Director (Finance & Resources).	30									
<b>Other total</b>			<b>62</b>	<b>7</b>								
<b>TOTAL</b>			<b>259</b>	<b>35</b>								

## Appendix 2 – Follow-up of Recommendations 2016/17

A follow-up audit has been undertaken in accordance with the 2016/17 audit plan. The objective was to confirm the extent to which the recommendations made in 2016/17 internal audit final reports have been implemented.

The table below provides a summary of the status of all 2016/17 recommendations raised in final reports issued as at 30<sup>th</sup> June 2017.

Title	Raised	Implemented	Partly Implemented	Outstanding	No longer relevant	Original Due Date	Revised Due Date	Not yet due	Resp. Officer
Housing Rents	5	5	-	-	-	31 Oct 2016	-	-	Katie Kiely
Commercial Asset Management	5	5	-	-	-	31 Oct 2016	-	-	Nick Brown
Homelessness	3	3	-	-	-	31 Dec 2016	-	-	Natasha Brathwaite
Housing Maintenance	8	8	-	-	-	31 Jan 2017	-	-	Fiona Williamson
Community Infrastructure Levy	6	6	-	-	-	31 Mar 2017	30 Jun 2017	-	Chris Taylor
Contract Management	3	2	-	1	-	31 Mar 2017	30 Sep 2017	-	Ben Hosier
NNDR	1	-	-	-	-	30 Jun 2017	-	1	Stuart Potton
Council Tax	1	-	-	-	-	31 Dec 2017	-	1	Chris Baker
Core Financial Systems	2	-	-	-	-	31 July 2017	-	2	Richard Baker
Benefits Realisation	1	-	-	-	-	30 Sep 2017	-	1	Richard Baker
Housing Benefit and Council Tax Support	3	-	-	-	-	30 June 2017	-	3	Chris Baker
Housing Register and Housing Allocations	3	-	-	-	-	30 Sept 2017	-	3	Natasha Brathwaite

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Human Resources	1	-	-	-	-	30 Sep 2017	-	1	Anne Stunell
Customer Relationship Management	2	-	-	-	-			2	Robert Smyth
Delivery of Digital Dacorum Strategy and Associated Projects and Activities	1	1	-	-	-	28 Feb 2017	-	-	Robert Smyth
<b>Total</b>	<b>45</b>	<b>30</b>	<b>-</b>	<b>1</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>14</b>	

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## Appendix 3 - 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

July 2017

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# Dacorum Borough Council

## Final Internal Audit Report

### Housing Rents

July 2017

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

CONFIDENTIAL

**Distribution List:**

Team Leader – Katie Kiely  
Layna Warden – Group Manager (Tenants and Leaseholders)  
Assistant Director (Housing) – Elliott Brooks  
Assistant Director (Finance and Resources) – David Skinner  
Corporate Director (Finance and Operations) – James Deane (Final Only)  
Chief Executive – Sally Marshall (Final Only)

**Key Dates:**

Date of fieldwork: May 2017  
Date of draft report: June 2017  
Receipt of responses: July 2017  
Date of final report: July 2017

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# 1. Executive Summary

## 1.1. Background

As part of the Internal Audit Plan for 2017/18, we completed a risk based audit of the processes in place for Housing Rents.

## 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 Housing Rents, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Policies and Procedures, Rent Debits, Rent Receipts, Rent Arrears, Manual Adjustments, Recharge of One off Services, Reconciliations and Follow up of Previous Recommendations.

### Summary Assessment

Our audit of the Council’s internal controls operating over Housing Rents found there is a sound system of internal control designed to achieve the system objectives. 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 Housing Rents is shown in Section 3.

## 1.3. Key Findings

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:

- Rent Debits – Timeliness of updating Orchard (Priority 3)
- Former Tenant Arrears – Write offs (Priority 2)

In our previous audit report, a total of five recommendations were raised (two priority 2 and three priority 3 recommendations). We have followed up these recommendations and confirmed that three have been implemented. With the remaining two recommendations, some exceptions were identified from our tests this year and these are covered in the recommendations as indicated above.

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

## 1.4. Management Response

We received the management responses in a timely manner and these have been included in the main body of the 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 Housing Rents, with regards to 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 and Procedures**

Policies and procedures are in place to minimise the risk of staff non-compliance with legislative and management requirements and ensure that Housing Rents functions are undertaken in an economic, effective and efficient manner.

#### **Rent Debits**

Tenants are charged at the correct rental rates from the correct dates and for all properties.

#### **Rent Receipts**

All rent owed is collected and rent receipts are accurately and completely transferred to the rents system, and are allocated to the correct tenant accounts.

#### **Rent Arrears**

Rent arrears are monitored regularly and appropriate recovery actions are taken promptly.

#### **Recharge of One off Services**

Recharges relating to one off services such as recoverable repairs and clearing landing are accounted for correctly and recovered in a full and timely manner.

#### **Manual Adjustments**

Manual adjustments are valid, accurate, and have not been duplicated.

#### **Reconciliation with the General Ledger**

Housing Rents records are regularly reconciled to the Council's General Ledger to ensure that accurate and complete financial information relating to housing rents is maintained.















#### **Follow up of previous recommendations**

Recommendations raised in the previous audit 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 and Procedures			
Rent Debits			<b>Recommendation 1</b>
Rent Receipts			
Rent Arrears			<b>Recommendation 2</b>
Recharge of One Off Services			
Manual Adjustments			
Reconciliations with the General Ledger			

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: Rent Debits – Timeliness of updating Orchard (Priority 3)

<p><b>Recommendation</b></p> <p>The date the Housing Income Team receive Commencements or Terminations of Tenancy forms should be recorded on Orchard. If there are any delays in Orchard being updated (more than 24 hours after the forms are received), reasons for this should be noted on Orchard.</p> <p>Management should also carry out spot checks to ensure that Orchard is updated within 24 hours of the forms being received and that the information entered is complete and accurate.</p> <p>The Housing Income Team should monitor the timeliness and if required, liaise with other teams’ managers to determine reasons for the delay in submitting the form to the Housing Income Team and consider any corrective actions that can be taken to address the delay.</p>
<p><b>Observation</b></p> <p>Orchard should be updated within 24 hours of receipt of a Commencement/Termination of Tenancy form or before the commencement/termination date as per the procedure note.</p> <p>From the sample of 10 tenancy commencements, Orchard was not updated by the tenancy commencement date in five cases. In three of the five cases, Orchard was updated within 24 hours of the form being received by the Housing Income team. However, the form was received by the team on the commencement day or the day after the commencement date, resulting in a minor delay. In the remaining two cases, the commencement of tenancy forms were received in advance of the commencement dates but there was a delay in updating Orchard (6 and 10 days after the commencement date).</p> <p>In addition, from the sample of 10 terminations, there was one case where Orchard was not updated within 24 hours.</p> <p>Discussions with the Team Leader established that often the team is dependent on other teams in the Housing Services to pass on the commencement/termination forms to the Housing Income team to input the rent account details on Orchard. As a result, if there are delays with other teams, this can affect their ability to process tenancies before terminations or commencements.</p> <p>The Team Leader also explained that currently the team members are expected to undertake their own checks to ensure that information entered onto Orchard is complete and accurate and inputs are not subject to a second check.</p> <p>Where Orchard is not updated in a timely manner, there is a risk that the tenant may not be billed in a timely manner, or the received rent may not be allocated to the relevant account promptly. Where data entered onto Orchard is not checked for accuracy and completeness, there is a risk that the input error may remain undetected.</p>
<p><b>Responsibility</b></p> <p>Team Leader (Income)</p>
<p><b>Management response / deadline</b></p> <p>This recommendation has now been implemented and DCOs are noting the received date on Orchard. We will investigate running reports quarterly and will carry out spot checks to ensure that these are reviewed and the appropriate remedial actions are taken.</p>

**Recommendation 2: Former Tenant Arrears – Write offs (Priority 2)**





<p><b>Recommendation</b></p> <p>The former tenant arrears report should be run for arrears over two years old to determine whether there are any cases where arrears cannot be recovered, and these should be written off (subject to approval). Cases where write offs have been approved should be promptly updated on Orchard.</p>
<p><b>Observation</b></p> <p>Where a former tenant has arrears that are not recoverable, these are required to be proposed for a write off. We were able to confirm that there is a process to follow when irrecoverable former tenant arrears are identified. However, there is currently no systematic review of former tenant arrears with no movements in the last two years.</p> <p>We tested a sample of 10 former tenant arrears accounts. For these, we were able to confirm that Orchard was updated and attempts were being made to recover the arrears in 6 cases. Of the remaining 4 cases, in one case the former tenant was in jail and for the remaining three cases, Orchard showed that the former tenants were on payment plans but they have defaulted payments (arrears amounts ranging from £1,786.09 to £4,831.93). For the three cases, the former tenants had not been chased despite no payments being received in the least two years. We were informed that the Council did not hold contact details for these former tenants and in all four cases the arrears should have been written off.</p> <p>Where arrears of former tenants are not regularly followed up and irrecoverable arrears written off promptly, there is an increased risk that the information on Orchard does not accurately reflect the current financial position of the Council or attempts may continue to be made against irrecoverable arrears.</p>
<p><b>Responsibility</b></p> <p>Team Leader (Income)</p>
<p><b>Management response / deadline</b></p> <p>Agreed – we will run a report and will ensure that any irrecoverable FT debts are written off on the schedule at the end of the current quarter.</p> <p>September 2017</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:

- Katie Kiely – Team Leader (Income)
- Jillian Watson – Lead officer
- Vindhya Shetty – Debit Control Officer
- Alan Parry – Business System Developer
- Keshika Naidoo – Accountant (Housing and Regeneration)
- Yamini Krishnan – Financial Accountant
- Jackie Whitefoot – Recharge Officer
- Aadil Ahmed - Housing Officer, Income

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**

#### **July 2017**

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# Dacorum Borough Council

## Final Internal Audit Report

### Leisure Services Procurement Assurance Review

July 2017

This report has been prepared on the basis of the limitations set out on page 7.

CONFIDENTIAL

**Distribution List:**

Assistant Director (Performance, People and Innovation) – Robert Smyth  
Assistant Director (Finance and Resources) – David Skinner  
Corporate Director (Finance and Operations) – James Deane (Final Only)  
Chief Executive – Sally Marshall (Final Only)

**Key Dates:**

Date of fieldwork: May 2017  
Date of draft report: June 2017  
Receipt of responses: July 2017  
Date of final report: July 2017

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# 1. Introduction

Leisure Services in the Borough are managed through Dacorum Sports Trust (DST). DST was established in April 2004 and provides a wide range of sporting and fitness services, including the major sports centres in the Borough. The Council paid a grant to DST of £225k (2017/18), and any surplus is reinvested in the facilities.

Following a competitive tender, the Council appointed The Sports Consultancy (TSC) to carry out a review of the current arrangements, and provide recommendations for the future of leisure services in the Borough.

Following this review, the recommendations were presented to Cabinet, and a decision was made to give notice to DST that the Borough was going out to tender.

In this context, Mazars has been requested, as part of our internal audit engagement, to provide assurance over the procurement of TSC and the governance arrangements in place over the Council's decision making.

Our recent assurance work for this report involved 4.25 personnel days in May and June 2017.

We have included key findings and observations in the Executive Summary at Section 3 below. We have detailed in Appendices I & II the supporting information referred to and the staff/stakeholders who kindly contributed to our work.

*We have reported on matters which appeared to us significant, but our assurance work may not have revealed matters which could have been identified by a more detailed investigation.*

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 and Approach

As detailed above, the purpose of this review is to provide assurance over the procurement of TSC and the governance arrangements in place over the Council's decision making. The scope therefore includes:

- **Compliance with Commissioning and Procurement Standing Orders:** The review should consider whether tender submissions were evaluated robustly and in accordance with the Council Commissioning and Procurement Standing Orders July 2015 (CPSO) and Invitation to Tender (ITT) documentation. The review should also consider whether the notice given on the arrangement with DST was in line with prevailing contract conditions.
- **Decision Making and Governance Arrangements:** The review should consider whether information presented to Members enabled them to make fully supported decisions regarding the tendering process. The review should also consider whether the Council's Constitutional processes have been adhered to and the decisions have been put to the correct Council body within the proper timescales.

The following limitations to the review scope were agreed upfront:

- “The work will be undertaken using a risk based approach and testing will be on a sample basis to verify compliance;
- The review will not seek to provide an opinion on the selection of the chosen bidder only that the processes followed as part of the tender evaluation leading to that selection are appropriate;
- The review does not provide absolute assurance that governance arrangements in place will operate effectively all of the time, or that material error, loss or fraud does not exist.”

### 3. Executive Summary

Area	Key Themes
<p><b>3.1. Overall</b></p>	<ul style="list-style-type: none"> <li>• Based on our discussions and review of supporting information it is clear that the procurement process to appoint TSC has been <b>undertaken in accordance with the CPSO</b>. The procurement process appears <b>efficient, effective and compliant</b>. It is evident that a suitable ITT process was followed both in terms of seeking proposals, outlining requirements and following a <b>robust tender evaluation process</b>.</li> <li>• <b>Thorough due diligence</b> was undertaken based on financial, quality, operational, value and risk considerations. Case studies were reviewed as well as a pre-award interview. <b>References and validation of experience claims were deemed not to be necessary in the circumstances.</b></li> <li>• All appropriate authorisation throughout the tender and contract award was received, all required steps (in accordance with the CPSO) were carried out and documented.</li> <li>• <b>Notice given in the arrangements with DST was in line with prevailing contract conditions.</b></li> <li>• The information presented to ‘Members’ is <b>fully supported and fairly represents</b> the detailed reports provided by the TSC, who in turn were appointed based on a robust tendering exercise (based on CPSO).</li> </ul>
<p><b>3.2. Compliance with CPSO</b></p>	<ul style="list-style-type: none"> <li>• The <b>appropriate ITT documentation</b> was created in line with the minimum standards and best practice guidelines set out in CPSO, including but not limited to: <ul style="list-style-type: none"> <li>➢ Reasonable tender timescales</li> <li>➢ The contract period and commencement dates</li> <li>➢ The basis of proposals and procedure for evaluation</li> <li>➢ Evaluation and award criteria</li> <li>➢ A detailed specification including: <ul style="list-style-type: none"> <li>▪ Outcomes to be achieved</li> <li>▪ The basis of charging</li> <li>▪ Requests for evidence of insurances and relevant policies and procedures</li> <li>▪ Contract terms and conditions.</li> </ul> </li> </ul> </li> <li>• All requests and subsequent quotation documentation was issued <b>in line with the CPSO</b> recommended Contracts Finder and e-tendering portal.</li> <li>• In accordance with the applicable financial thresholds <b>appropriate authority</b> was sought and documented (contract award certification / signee / contracts register).</li> </ul>



Area	Key Themes
	<ul style="list-style-type: none"> <li>A <b>robust and effective evaluation process</b> was undertaken, quotations were evaluated against the established and documented award criteria, scoring methodology and rationale was clear and appropriate.</li> </ul>
<b>3.3. Decision Making and Governance Arrangements</b>	<ul style="list-style-type: none"> <li>It is evident the <b>output report has been delivered in line with the original specification</b> requirements set out, and the basis of TSC's recommendations (contained within their reports) are clearly detailed with backup references to allow for validation.</li> <li>All subsequent reporting based on TSCs findings are a <b>fair representation</b> of the salient points in the reports and appear to remain balanced in their interpretation. This allows Members to make <b>fully supported decisions</b> regarding both the tendering process and output recommendations.</li> <li>All summarised supporting information provided to the Council is <b>rounded in their coverage of financial, quality, operational, value and risk considerations</b>.</li> <li>Given the risk and impact profile of the recommendation it is apparent that the decision was appropriately escalated to Councillors for an executive decision.</li> <li>Time allowed for decision making was in line with best practice, and sufficient for <b>effective governance</b>.</li> </ul>

## Appendix I – Key Documents and information reviewed as part of our assurance work

Documents and Information	Date
<ul style="list-style-type: none"> <li>• Procurement Timeline Final – Timeline of events and list of evidence / documents</li> <li>• Commissioning &amp; Procurement Standing Orders Final</li> <li>• DBC Conference Call with Ben Hosier</li> <li>• Theme 1 Documents               <ul style="list-style-type: none"> <li>○ Information Instructions Part A – Sports Review</li> <li>○ Information Documents Part B – Sports Review</li> <li>○ Returns Schedule Part C – Sports Review</li> <li>○ Tender Requisition Form</li> <li>○ ITT Evaluation Sports Review</li> <li>○ Sports Review Certificate of Authority</li> <li>○ The Sports Consultancy Contract Signed</li> <li>○ DBC Strategic Review Final Draft</li> <li>○ Dacorum Management Options Report Final1</li> <li>○ Cabinet Leisure Strategy V4</li> <li>○ Sportspace Cabinet 13 12 2016 Minutes Part 2</li> <li>○ TimeLine for PH decisions</li> <li>○ PH xxx 17 part 2 Leisure Review</li> <li>○ Dacorum Briefing note</li> <li>○ Trust Letter</li> </ul> </li> <li>• Theme 2 Documents               <ul style="list-style-type: none"> <li>○ Signed Certificate</li> <li>○ Contract with The Sports Consultancy</li> <li>○ Detailed specification for commissioning of a leisure services contract 003</li> </ul> </li> <li>• Theme 3 Longdean               <ul style="list-style-type: none"> <li>○ Cabinet Report Athletic Track Provision Sept 2016 Final</li> <li>○ Minutes of Previous Meeting Sept Longdean</li> <li>○ Detailed specification for Longdean Athletics Track</li> <li>○ RFQ16-0106 Longdean athletics track</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>July 2014</li> <li>5 June 2017</li> <li>March/April 2016</li> <li>17<sup>th</sup> May 2016</li> <li>10<sup>th</sup> Oct 2016</li> <li>13<sup>th</sup> December 2016</li> <li>9<sup>th</sup> Feb 2017</li> <li>17<sup>th</sup> March 2017</li> <li>3<sup>rd</sup> April 2017</li> <li>April 2017</li> <li>20<sup>th</sup> Sept 2016</li> <li>20<sup>th</sup> Sept 2016</li> <li>12<sup>th</sup> April 2017</li> </ul>

## Appendix II – Key staff/stakeholders we met or spoke with as part of our assurance work

Name	Role
<b>Ben Hosier</b>	Group Manager – Commissioning, Procurement and Compliance
<b>James Deane</b>	Corporate Director (Finance and Operations)
<b>Mark Brookes</b>	Solicitor to the Council and Monitoring Officer
<b>Robert Smyth</b>	Assistant Director – Performance, People & Innovation

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**

**July 2017**

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# Agenda Item 9

## AUDIT COMMITTEE: Work Programme 2017-18

MEETING DATE	DEADLINE TO MONITORING OFFICER	DEADLINE TO MEMBER SUPPORT	ITEMS:	WHO RESPONSIBLE
<b>19/7/17</b>		11/7/17	Statement of Accounts 2016/17 Update	
			Audit Funding	
			Progress Report <ul style="list-style-type: none"> <li>• Housing Rents</li> <li>• Off-Payroll Engagement</li> <li>• Information governance</li> </ul>	Internal Audit (Mazars)
			Internal Audit Progress Report	Internal Audit (Mazars)
			External Audit Progress Report	Grant Thornton
			Strategic Risk Register	DBC - Finance
<b>20/9/17</b>		12/9/17	Progress Report <ul style="list-style-type: none"> <li>• Community Contracts</li> <li>• Cloud Computing</li> </ul>	Internal Audit (Mazars)
			Internal Audit Progress Report	Internal Audit (Mazars)
			External Audit Progress Report	Grant Thornton
			Strategic Risk Register	DBC - Finance

<b>22/11/17</b>		14/11/17	Progress Report •	Internal Audit (Mazars)
			Internal Audit Progress Report	Internal Audit (Mazars)
			External Audit Progress Report	Grant Thornton
			Strategic Risk Register	DBC - Finance
<b>7/2/18</b>		30/1/18	Progress Report • Council Tax • Main Accounting • Treasury Management • Accounts Receivable • Accounts Payable • NNDR • Empty Homes • Capital Programme • Social Media	Internal Audit (Mazars)
			Internal Audit Progress Report	Internal Audit (Mazars)
			External Audit Progress Report	Grant Thornton
			Strategic Risk Register	DBC - Finance
			Benefits – Review of risk based reporting	DBC – Benefits
<b>28/3/18</b>		20/3/18	Progress Report • Housing Benefit and Council Tax Benefit • Budgetary Control • CIL • Governance and Risk Management • Benefits Realisation	Internal Audit (Mazars)

			Internal Audit Progress Report	Internal Audit (Mazars)
			External Audit Progress Report	Grant Thornton
			Strategic Risk Register	DBC - Finance