



Audit Agenda

Wednesday 7 February 2018 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)

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence

2. 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]

3. MINUTES AND ACTIONS

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

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. STRATEGIC RISK REGISTER - QUARTER 3 (Pages 4 - 21)

6. DACORUM BOROUGH COUNCIL PSA - CERTIFICATION LETTER 2017 SIGNED (Pages 22 - 23)

7. EXTERNAL AUDIT PLAN 2017-18 - GRANT THORNTON (Pages 24 - 39)

8. INTERNAL AUDIT PROGRESS REPORT - FEBRUARY 2018 (Pages 40 - 52)

9. INTERNAL AUDIT - SERVICE REPORTS (Pages 53 - 100)

The following reports are included for consideration;

- Community Contracts
- NNDR
- Council Tax
- Housing Benefit and Council Tax Support (Parts 1 & 2)

10. AUDIT COMMITTEE WORK PROGRAMME - FEB 2018 (Pages 101 - 102)

11. EXCLUSION OF THE PUBLIC

To consider passing a resolution in the following terms:

That, under s.100A (4) of the Local Government Act 1972 Schedule 12A Part 1 as amended by the Local Government (Access to Information) (Variation) Order 2006 the public be excluded during the items in Part 2 of the Agenda for this meeting, because it is likely, in view of the nature of the business to be transacted, that, if members of the public were present during the items, there would be disclosure to them of exempt information relating to the financial and business affairs of the Council and particular persons.

12. HOUSING BENEFIT AND COUNCIL TAX SUPPORT (PART 2).

Internal Audit Recommendation on Housing Benefit and Council Tax Support (See item 9)

13. ANNUAL REVIEW OF RISK BASED VERIFICATION 2018 (Pages 103 - 112)

Agenda Item 5



AGENDA ITEM:

SUMMARY

| | |
|---------------------|-----------------|
| Report for: | Audit Committee |
| Date of meeting: | 7 February 2018 |
| PART: | 1 |
| If Part II, reason: | |

| | |
|--------------------------------|---|
| Title of report: | Strategic Risk Register Quarter 3, 2017/18 |
| Contact: | Cllr Graeme Elliot , Portfolio Holder Finance & Resources James Deane , Corporate Director (Finance & Operations) Linda Dargue, Lead Officer, Insurance & Risk |
| Purpose of report: | To provide the Quarter 3 update on the Strategic Risk Register |
| Recommendations | That the content of this report is noted and that Committee seek further assurance where required. |
| Corporate objectives: | Dacorum Delivers – Risk management is an essential part of ensuring that the Council meets all of its objectives |
| Implications: | <u>Financial</u> Incorporated within the report. |
| 'Value For Money Implications' | <u>Value for Money</u> Risk management is closely linked to the Council's commitment to ensure that all resources are used efficiently and forms part of effective financial planning. The Council also needs to ensure that adequate provisions are in place to address anticipated risks but that these are no greater than necessary so that maximum resources are applied to services as required. To this end the Council sets minimum target working balances for both the general fund and HRA and at the date of this report these minimum balances are secured. Budget exercises for 2017/18 have ensured that the minimum balance requirements will also be met for the next financial year. |
| Risk Implications | Effective risk management is an important factor in all policymaking, planning and decision making. |

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|--------------------------------|---|
| | Failure to manage risk effectively could have serious consequences for the Council leading to increased costs, wasted resources, prosecution and criticism under external assessments |
| Equalities Implications | Equality Impact Assessment reviewed/carried out* Not applicable |
| Health And Safety Implications | Not applicable |
| Consultees: | Chief Officer Group |
| Background papers: | Cabinet, October 2014, Agenda Item 10 |

BACKGROUND

1. The revised Strategic Risk register showing the position at the end of Q3 2017/18 is attached at Appendix A.
2. For this quarter the risk scores have remained unchanged, however the narrative has been reviewed and amended as appropriate to reflect the present position.
3. This iteration of the risk register, i.e. as at Quarter 3, will be reported to Cabinet on 27 March 2018, and will include comments and suggestions as requested by the Audit Committee.

STRATEGIC RISK REGISTER

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C5 - The Council fails to comply with the regulatory framework within which it must operate.

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|---|--|--|---|--|----------------------------|
| Category: Legal & Regulatory | Corporate Priority: Dacorum Delivers | Risk Owner: James Deane | Portfolio Holder: Graeme Elliot | Tolerance: Treating | |
| Inherent Probability | Inherent Impact | Inherent Risk Score | Residual Probability | Residual Impact | Residual Risk Score |
| 4 Very Likely | 4 Severe | 16 Red | 3 Likely | 2 Medium | 6 Amber |
| Consequences | | Current Controls | | Assurance | |
| <p>As a public sector organisation, there a number of regulatory frameworks which govern the way in which the Council must operate both on a day-to-day basis and in the discharging of one-off duties or actions.</p> <p>Generally, compliance with these frameworks is considered an operational risk and is monitored and managed through a combination of the Operational Risk Register and Performance Indicators which are reported to the relevant Overview and Scrutiny Committees.</p> <p>However, there is a risk that in some circumstances failure to comply with regulations could result in a number of consequences for the Council that are sufficiently negative and high profile in nature to become, for a short time, strategic in nature.</p> <p>For example, failure to follow the correct protocols prescribed under the data protection legislation could result in the following consequences for the Council:</p> | | <p>The Council has a number of strategies and policies in place which aim to provide clarity in the way Council Members and staff should operate.</p> <p>These documents are reviewed and updated periodically by Officers who are experts in the field and are frequently the subject of Internal Audit reviews in order to provide Members with independent, third-party assurance.</p> <p>These processes mitigate the likelihood of this risk crystallising and have resulted in my reducing the inherent risk score from '4', Very Likely, to '2', Unlikely.</p> <p>Data Protection policy & procedures Health & Safety policy & procedures Risk Management framework Safeguarding policy & procedures Financial Regulations Procurement Standing Orders Constitution</p> | | <p>The Financial Regulations (Main Accounting) and Emergency Plan were audited by Mazars, the Council's Internal Auditors in 2014/15 and achieved a FULL level of assurance.</p> <p>The Risk Management framework and Procurement Standing Orders were audited in 2014/15 and achieved a SUBSTANTIAL level of assurance.</p> | |

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| <p>1. Disclosure of personal information causing harm to a resident</p> <p>2. High profile negative publicity regarding the way the Council operates</p> <p>3. Significant financial penalty imposed by the Information Commissioner</p> <p>This risk has been included on the Strategic Risk Register to ensure that there is scope to escalate an operational risk for Cabinet consideration and Audit Committee scrutiny should there be a period of intensified risk in a specific regulatory area.</p> | <p>Emergency Plan</p> <p>Human Resources terms & conditions</p> | |
| Sign Off and Comments | | |
| <p>Sign Off Complete</p> <p>The Council is currently in discussions with Union Representatives following their balloting of members in response to changes to Terms and Conditions approved by Cabinet in late 2017. Members will kept updated of any associated risks as discussions continue.</p> | | |

C6 - The Council does not attract and retain the skill sets within its workforce that will enable it to maximise opportunities for delivering its services more efficiently through increased partnership working.

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|--|--|--|--------------------------------------|---|-------------------------------|
| Category: People/Employees | Corporate Priority: Dacorum Delivers | | Risk Owner: Sally Marshall | Portfolio Holder: Neil Harden | Tolerance: Treating |
| Inherent Probability | Inherent Impact | Inherent Risk Score | Residual Probability | Residual Impact | Residual Risk Score |
| 4 Very Likely | 4 Severe | 16 Red | 2 Unlikely | 4 Severe | 8 Amber |
| Consequences | | Current Controls | | Assurance | |
| • The quality of service delivery is likely to be adversely affected due to a lack of resources and/or skills to | | - Leading in Dacorum continues to be delivered (all courses stated in risk register) | | • The projected annual turnover rate (as calculated in Q2) is 14%. While this has increased slightly, it is | |

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effectively deliver services through increased partnership working.

- There is likely to be a reduction in efficiency savings due to inability to create more effective partnerships.
- There is also likely to be a negative impact on any proposals for devolved powers.
- A failure to create more examples of effective partnership working will result in a higher likelihood of back office and front line services being reduced as the financial constraints on the Council's budget continue to tighten.

- People strategy has been implemented which will cover issues including graduate scheme, apprenticeship scheme, succession planning, reviewing T&Cs etc.
- Continuation

comparable to the wider business average of 15% and only just above the local government average (12%).

- Opportunities for collaboration and shared services are being actively considered across Hertfordshire in relation to Legal, HR, Information Management, Insurance and Payroll Services.
- Recruitment for leadership posts is generally competitive with a good number of applications being received from suitably qualified candidates for vacant posts.

Sign Off and Comments

Sign Off Complete

We have a well-established and effective approach to recruiting staff, although there are some areas in which it is more difficult to attract candidates. We use a range of media to advertise and operate up-to-date recruitment policies and practices. However, following a review we have begun to implement changes, which will make the Council more attractive to prospective recruits. This includes a new recruitment website, easier forms and using the power of LinkedIn and other social media sites to better target suitable candidates.

We have also started to implement proposals to modernise our terms and conditions, which includes car salary sacrifice, holiday trading and a new staff recognition scheme.

A project to review our approach to training and development is underway which will ensure our corporate training fulfils the workforce needs and that the service training budgets are consistently split across the teams.

We are also continuing to provide a dedicated management-training programme (Leading in Dacorum) that focuses on service planning, innovation, efficiencies and workforce planning, as well as a comprehensive mandatory training programme to ensure staff have the right skills to carry out their roles.

C7 - Controls do not develop at a sufficient pace to keep track with the continually emerging data protection risks

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|-------------------------------|--|--------------------------------------|---|-------------------------------|----------------------------|
| Category: Corporate | Corporate Priority: Dacorum Delivers | Risk Owner: Sally Marshall | Portfolio Holder: Neil Harden | Tolerance: Treating | |
| Inherent Probability | Inherent Impact | Inherent Risk Score | Residual Probability | Residual Impact | Residual Risk Score |

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| 3 Likely | 4 Severe | 12 Red | 2 Unlikely | 3 High | 6 Amber |
|--|-------------|---|---------------|--|------------|
| Consequences | | Current Controls | | Assurance | |
| <p>Cause of Risk - The Council is reliant on vast amounts of good quality data and information to determine sound decisions and plans, conduct operations and deliver services.</p> <p>It is also required by the Data Protection Act and Government's Public Sector Network (PSN) Code of Connection (CoCo) to maintain confidentiality, integrity, availability and appropriately authorised use of the data.</p> <p>With the Government's 'Open' agenda, increased flexible working patterns of staff, and increased partnership working and use of multiple information storage sources, controls on data management and security have become complex and important.</p> <p>Consequences of Risk –</p> <ol style="list-style-type: none"> Poor decision making due to ineffective use of or insufficient availability of data and information sharing. Loss, misrepresentation or unauthorised disclosure of sensitive data, DBC has the potential to be susceptible to cyber-attacks or sabotage. Under performance. Breach of Data Protection Act leading to legal actions, fines, adverse publicity, and additional remedial and data protection costs. Significant interruption of vital services leading to | | <p>Information Security Officer appointed responsibilities include:</p> <ul style="list-style-type: none"> the Council's Corporate Information Assurance specialist the custodian, owner and updater of ICT Security and Information Governance strategy, policy and procedure ensuring that the Council complies with the latest legislation in terms of ICT Security standards and compliance. To ensure that the Council's policies and procedures regarding ICT Security and Information governance are adhered to across all the Council's services. To keep informed of relevant technical innovation and changes to technological, infrastructure, telecom and software systems in relation to Information Security. To be the custodian and owner of Information Security and Governance Standards. To manage Information Security and Governance strategies and to support the Council in the future development of Information Security, Governance and Business Continuity. To train Council Staff, Members on Information Security, Data Protection Act and Freedom of Information Acts. <p>Compulsory training for staff on Data Security</p> <ul style="list-style-type: none"> PSN Compliance Audit of data protection approach | | <ul style="list-style-type: none"> Information Security Officer appointed Various ICT policies and procedures in place Compulsory training for staff on Data Security PSN Compliance | |

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failure to meet duties and to protect people, finances and assets.
5. Potential damage to DBC's reputation.

Sign Off and Comments

Sign Off Complete

We have a robust approach to managing data security and protection. This includes a range of technical security measures such as anti-virus software, corporate firewalls and various authentication processes.

New staff also have to review and sign a number of Information Security / Management Policies (Including data protection) and all suppliers working with our data are required to complete an 'accreditation form'.

Overall systems availability in Q2 was above target at 99.96% and we received our PSN reaccreditation (January). We also continue to implement the findings from the independent cyber security audit.

The forthcoming refresh of our hardware (February) and software upgrades will strength our resilience and we are continuing to work with BT to progress delivery of resilient lines. We are also working towards the upgrade of the Council's data centre (March).

We are continuing to run quarterly training courses and refreshers on the Data Protection Act, which will be merged with the GDPR course in May 2018. A GDPR 12 point action plan was presented to CMT and is being implemented.

F6 - Changes to legislation could negatively affect the medium to long term viability of the HRA Business Plan.

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|-------------------------------|--|-----------------------------------|---|-------------------------------|----------------------------|
| Category: Financial | Corporate Priority: Affordable Housing | Risk Owner: Mark Gaynor | Portfolio Holder: Margaret Patricia Griffiths | Tolerance: Treating | |
| Inherent Probability | Inherent Impact | Inherent Risk Score | Residual Probability | Residual Impact | Residual Risk Score |
| 4 Very Likely | 4 Severe | 16 Red | 4 Very Likely | 3 High | 12 Red |

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| Consequences | Current Controls | Assurance |
|--|---|---|
| <p>Since the 'once and for all' settlement with government on the self financing of the HRA there have been major legislative and policy changes which, overall, have impacted detrimentally on the HRA Business Plan:</p> <ul style="list-style-type: none"> • The re-invigoration of the RTB which has increased sales from around 15-20 per year to well over 100 • The parallel introduction of the RTB 'one for one' replacement scheme where the Council can use receipts to build new homes but only to pay for 30% of costs (leaving the other 70% to be sourced) • A change to national rent policy which moved from RPI + 0.5% to CPI + 1% and ending the process of reaching target rents (leaving 60% of DBC properties below target) <p>The government now propose two further changes which, if enacted, will further constrain the capacity of the HRA Business Plan viability:</p> <ul style="list-style-type: none"> • A rent reduction of 1% per year for four years and a complete inability to make any progress towards convergence to target rents (a reduction of income of £30M over the first four years and over £500M over the lifetime of the HRA Business Plan) • Enforced sales of 'high value' council homes as they become vacant to fund Housing Association RTB <p>The first of these changes is already in draft legislation and the assumption must be that it will happen. The consequences are very significant, and even with mitigation will continue to be so:</p> <p>The financial viability of the HRA to meet its current</p> | <p>Elements of the changes are yet to apply (the rent changes start from April 2016) and the current controls – proper business planning, the disciplines of the MTFs, project and programme management arrangements, effective contract management, annual efficiency programmes and so on – reflect on the existing position and could provide sufficient mitigation to the long term business plan. The controls proposed for the new changes – if the proposed legislation is enacted – will only mitigate the impact to an extent as the scale of change, compounded with previous changes, are so significant. The controls are as follows:</p> <p>A complete review of the HRA Business Plan to spread the impacts over activities and over time. Initially, in order to deliver the current new build programme, this will be focused on a slowing down of the investment into current stock.</p> <p>Reducing the costs of running the service through efficiency and service redesign (in partnership with tenants and leaseholders).</p> <p>Improved procurement of services and renegotiation of existing contracts (though these have been procured within the last year or so and will restrict potential). This would include seeking shared services with other partners and models of operation which reduce the overheads of the HRA.</p> <p>Maximising the income to the HRA by altering use of parts of the stock (increased use of HRA stock for temporary accommodation and provision of low level</p> | <p>A remodelling of the HRA Business Plan has been made to take account of the impact of the changes which will be considered by Cabinet (initially in November 2015 and periodically thereafter). This has demonstrated that the current new build programme can be completed. The ability to extend this further will depend on the success of the mitigations above.</p> |

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business plan objectives in full cannot be made due to loss of income and economies of scale as stock numbers diminish.

Services to tenants will have to reduce, including proposed investment in the existing stock, to deal with the scale of resource reduction.

The new build programme at its proposed scale will have to reduce, and possibly cease, in order to provide services to tenants and balance the books.

That resources provided through RTB one for one replacement will be unused and lost to the Borough as it is returned to the Treasury as a result of the Council's inability to provide the 70% match funding and as Housing Associations reduce their supply of new affordable homes (as a result of the same legislative changes impacting on the Council).

The Council's housing stock will progressively reduce through RTB, enforced sales and reduction in new build which will reduce its ability to meet the housing needs in the Borough and achieving the strategic objective of increasing the supply of affordable homes.

care as part of a tenancy where rent controls do not apply).

Altering the tenure mix of the current new build programme to include shared ownership and market sale in order to cross subsidise new rented provision. This could incorporate an element of affordable rent to increase revenue.

Development of a partnership approach to use of RTB one for one replacement funding with local Housing Associations in order to minimise losses of resource to the Borough and to increase supply of new homes.

Fully exploring the potential of a Local Housing Company to improve the cost of delivery of new homes alongside the benefits to the General Fund.

Lobbying of government regarding the disproportionately severe impacts of the changes, though historical reasons, on DBC seeking some local amelioration.

Ensuring that our intelligence on the changing position and on developments within the sector are fully up to date through membership of ARCH, liaison with CIH and other key bodies.

The following controls are in place already with regard to the financial and strategic management of the HRA Business Plan:

- An annual refresh of the HRA Business Plan reported both to CMT and to Cabinet
- Monthly meeting between budget holders and accountants monitoring progress against original timeframes and costs

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| <ul style="list-style-type: none"> • Regular meetings of the Corporate New Build Group considering performance and new schemes • CMT receive a fortnightly update on the new build programme • Performance Board comprising Chief Officers and cabinet members receive a report on progress before each cabinet meeting • Reports on HRA performance go the Overview and Scrutiny every quarter • The HRA is reported as part of the overall corporate financial reporting process | |
| Sign Off and Comments | |
| <p>Confirmation from the government that rent increases of CPI plus 1% from 2020 will apply will help stabilise the HRA. The new Business Plan will outline a continuation of new build over the next few years. There remains a concern over the proposed levy for 'higher value council houses' which looks like being brought in for 2019/20 with no indication of how much that will be. In practice this will require the sale of a number of vacant homes.</p> | |

| F7 - Funding and income is not sufficient to deliver the Council's corporate objectives | | | | | |
|---|---------------------|---|----------------------|--|---------------------|
| Category: | Corporate Priority: | Risk Owner: | Portfolio Holder: | Tolerance: | |
| Financial | Dacorum Delivers | James Deane | Graeme Elliot | Treating | |
| Inherent Probability | Inherent Impact | Inherent Risk Score | Residual Probability | Residual Impact | Residual Risk Score |
| 4 Very Likely | 4 Severe | 16 Red | 3 Likely | 3 High | 9 Amber |
| Consequences | | Current Controls | | Assurance | |
| The government's austerity programme has led to reduced Local Authority funding over the last seven | | The Council's Medium Term Financial Strategy and the HRA Business Plan are controls that mitigate the | | In March 2017, the Council was audited by Mazars on 'Budgetary Control', and secured a 'FULL' level of | |

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years, resulting in the Council's need to find savings of £7m since 2010/11. Further funding reductions in excess of £3m are forecast over the next four years, which increases the risk of the Council being unable to deliver its vision for the borough, as detailed in the Corporate Plan.

(http://www.dacorum.gov.uk/docs/default-source/council-democracy/dacorum_corporateplan_web.pdf?sfvrsn=2)

Sustained funding reductions of this magnitude are not only a risk to the Council's capacity to grow and enhance the community, but more fundamentally they are a risk to the continued provision of high quality frontline services to residents.

If the Council is unable to deliver its vision or to protect its frontline service provision, it risks the following consequences:

Increased community hardship as the services provided to the most vulnerable residents in the borough are impacted, leading to delays in their accessing financial and residential help.

The impact of reducing standards of environmental services across the borough could lead to a less attractive environment and a loss of community identity and civic pride for residents.

Reputational damage as residents become dissatisfied

likelihood of this risk crystallising through the effective modelling of the future financial environment, which allows for more effective forward planning. These controls are detailed below, and have resulted in my reducing the inherent risk score from '4', Very Likely, to '3', Likely.

The Council's Medium Term Financial Strategy (MTFS) details the financial implications of the Corporate Plan over a five-year period. It ensures that the Council is able to forecast likely income pressures in the medium-term, and optimise the balance between its financial resources and the delivery of its priorities. The MTFS is reviewed at least annually and is approved by Full Council, thereby providing the opportunity for Members to make informed amendments to the Corporate Plan on the basis of likely funding constraints. The current version is accessible via the following link:

<http://www.dacorum.gov.uk/docs/default-source/council-democracy/mtfs-july-cabinet-2015.pdf?sfvrsn=0>

The Council's Housing Revenue Account (HRA) Business Plan maps planned income and expenditure over a thirty-year period. Government legislation that can affect the Council's delivery of social housing is incorporated within the plan and forms the basis for informed strategic decision-making.

assurance.

The external auditors, Grant Thornton, gave the following 'value for money' opinion within the 2016/17 year end audit of the Council: 'based on the work we performed to address the significant risk, we concluded that [the Council] had proper arrangements in place in all significant respects to ensure it delivered value for money in its use of resources.'

These audit opinions provide assurance that the Council is effectively controlling the processes that will enable it to derive value for money from its available resources, and therefore to maximise the opportunity for delivering its corporate objectives.

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with their experience of interacting with the Council. This risk is exacerbated by the growth of social media and the ability of residents to share their experiences with large numbers of people instantaneously.

The Council's reviewing of its Corporate Plan together with its Communications Strategy mitigate the impact of this risk, should it occur, by keeping residents informed of the pressures faced by the Council, and consequently by managing aspiration and expectation (detail below). On this basis, I have reduced the Impact score from '4', Severe, to '3', High.

The Council reviews its Corporate Plan periodically to ensure that the vision for the borough remains relevant and realistic within the financial constraints outlined within the MTFS and the HRA plan. The aspirations of the Council and the community are managed through the Council's Communications Strategy both through social media, the local press and Digest.

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Sign Off and Comments

Sign Off Complete

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A sustainable draft budget for 2018/19 was presented to Joint OSC in December 2017, and is scheduled for recommendation by Council in February 2018.

2018 Government funding levels for Dacorum, announced within the Provisional Local Government Finance Settlement in December 2017 were consistent with those anticipated through the 4-year funding deal to which DBC subscribed.

The recent collapse of Carillion demonstrates the risk to public sector bodies of increased partnership working with the private sector. The Council has no direct exposure to Carillion. Officers are currently in discussion with the Council's major contractors to understand if there are likely to be any significant, indirect implications arising for the Council.

There have been recent reports in the news regarding the financial stability of Interserve, which provide the Council's Facilities Management services for The Forum. There is not believed to be a direct threat to the current service provision, but the Council does have a contingency plan in place to ensure continuation of services should Interserve cease to be in a position to provide them.

Officers within Housing, where the Council contracts the highest value with the private sector, are currently reviewing the contingency position should any of the Council's major contractors be unable to fulfil their obligations in the future. This will be reported back to Audit Committee.

13 - The Borough does not secure sufficient investment in infrastructure to ensure that housing delivery and economic and community growth is sustainable in the longer term.

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|---|--|--|---|--|----------------------------|
| Category: Infrastructure | Corporate Priority: Affordable Housing | Risk Owner: Mark Gaynor | Portfolio Holder: Graham Sutton | Tolerance: Treating | |
| Inherent Probability | Inherent Impact | Inherent Risk Score | Residual Probability | Residual Impact | Residual Risk Score |
| 4 Very Likely | 4 Severe | 16 Red | 3 Likely | 3 High | 9 Amber |
| Consequences | | Current Controls | | Assurance | |
| The provision of infrastructure such as schools, health, transport and other facilities is crucial to sustainability of the local community and economy. Its funding, however, is increasingly complex and difficult as central | | Infrastructure is provided through the development process (s106 and Community Infrastructure Levy) and elements of funding which comes from central government (increasingly through the LEP, bidding and | | The process for setting out development delivered is through the Authority Monitoring Report. The agreed process for CIL will see an annual report setting out income due, achieved and expenditure made on agreed | |

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government moves away from direct provision and expects the development process and local partnerships to deliver it. Failure to provide this infrastructure will have a number of damaging consequences:

A reduction in the quality of life and opportunities for people in the Borough

A serious constraint to economic growth with the impact on the contribution to service provision through Business Rates growth

Increased community opposition to new developments, particularly housing, on the grounds that existing infrastructure will not cope

Damage to the image of the area, worsening of community pride and social cohesion and reputational damage to the Council

HCC). The responsibility for some infrastructure elements is through privatised arrangements (utilities) or arms-length government agencies such as Network Rail. The ability of the Council to control these processes is limited.

The Council is able to promote the quantum, nature and timing of growth making it more likely that the infrastructure will be delivered. It is also able to promote partnerships and use its asset base and influence to stimulate desired development. Current controls include:

Ensuring that the Local Plan (and its component elements such as the Core Strategy, site allocations, supporting policies and so on) is up to date and sets out very clearly the requirements of proposed development. This promotes sustainable development by design, access and movement, materials. Use of masterplanning supports what is required to be delivered to produce sustainability on larger sites. The approved Council's Community Infrastructure Levy Policy and schedule (CIL) provides for the levels of contributions that must be made by developers and the purpose for which they will be spent. This also includes an element of CIL which can be spent by local communities and act to link growth directly with infrastructure provision local people want.

Operating a 'open for business' approach to how the Council deals with potential development with a presumption of making acceptable development easier to deliver by proactive advice through the planning

infrastructure.

Regular reports are made as set out above in controls.

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process. Allied to this is ensuring that the development management service is capable of achieving decision making within required time limits.

Stimulating required growth through the Council's own regeneration activity, including Hemel Evolution, Gade Zone and Heart of Maylands resulting in inward investment being more likely.

Increasing inward investment through initiatives such as Dacorum Look no Further, Ambassadors, direct provision of business advice and a supportive approach to new development.

Good market intelligence through regular liaison with local employers, landowners, developers, institutional investors and land agents regarding demand and expected assistance.

Partnership with the LEP as the main route for additional funding for infrastructure through influencing the Strategic Growth Plan (in which Hemel Hempstead and the M1 corridor is a priority) and bidding for resources for infrastructure (such as the £5M achieved for West Herts College)

Working to create key partnerships to bring forward development capable of funding major infrastructure (such as Gorhambury)

These controls are exercised within the following:

- Monthly reporting to Hemel Evolution Board and Corporate Regeneration Group
- Fortnightly reporting on key projects to CMT
- Reporting to Performance Board before each Cabinet Meeting

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| | <ul style="list-style-type: none"> • A clear programme for the Local Development Framework and CIL • Quarterly reporting to Overview and Scrutiny • Regular reporting to Cabinet • Adherence to the agreed performance and project management processes | |
|--|---|--|

Sign Off and Comments

Sign Off Complete

No real changes in the situation. The issues and options element of the developing Local Plan identified that infrastructure is most likely to be delivered effectively through larger sites that Section 106 can apply rather than CIL.

Risk - The Council does not embrace the increased use of social media as a tool for social engagement and increased community engagement.

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|--|--|---|---|--|----------------------------|
| Category: Reputational | Corporate Priority: Dacorum Delivers | Risk Owner: Sally Marshall | Portfolio Holder: Neil Harden | Tolerance: Treating | |
| Inherent Probability | Inherent Impact | Inherent Risk Score | Residual Probability | Residual Impact | Residual Risk Score |
| 3 Likely | 3 High | 9 Amber | 2 Unlikely | 3 High | 6 Amber |
| Consequences | | Current Controls | | Assurance | |
| <p>The risk of not using social media</p> <p>- This will mean that our approach to engagement (i.e. letters, workshops, printed magazines) is likely to exclude key demographic groups including younger residents and those who are more technologically minded.</p> <p>- We will not be able to respond to negative posts or</p> | | <p>In order to mitigate these risks we have put in place a number of controls:</p> <p>The risk of not using social media</p> <p>- Our social media strategy sets out how we will proactively engage with residents through Twitter, Facebook, Linked In, Instagram and using online videos.</p> | | <ul style="list-style-type: none"> o Corporate Information Security Management Policy o Corporate Information Technology Security Policy o Data Protection Act Policy o Freedom of Information Policy o PSN/Government Connect (GSx) Acceptable Usage Policy o Information Security Incident Procedure o Social Media Strategy o Facebook and Twitter accounts | |

STRATEGIC RISK REGISTER

December 2017



views which could cause significant reputational damage or risk.

- We will have less opportunity to influence Government and media through the use of targeted campaigns and communications.

- The organisation may not be viewed as 'technologically forward thinking' which could lead to reputational risks. This includes more difficulty in attracting hi-tech investment or exclusion from innovation pilots.

Managing the risk of social media

- Members of the public can use DBC's profile to raise negative or incorrect statements that damage the reputation of DBC.

- Employees may breach data security rules regarding the management of private or confidential information.

- Inappropriate or unacceptable content posted by employees

- Our social media accounts are 'identity jacked' which occurs when fake accounts are set up to look like those of DBC. This is a risk because the fake accounts can post incorrect or inappropriate information which is then associated with DBC.

- We have 18 social media accounts covering corporate and operational services including from the CSU.

- We regularly use social media to actively promote campaigns, events and messages.

- We interact with partners and other third parties (eg HCC) to promote joint initiatives via social media

- We generate reports and analysis on scale and content of Facebook and Twitter posts.

Managing the risk of social media

- We employ the Crowd Control system to enable the Communications team to manage and authorise services posts and tweets.

- The Crowd Control system also enables the Communications team to monitor and respond to any negative posts.

- Our system provides automatic moderation of abusive messages.

- We provide in-house training for all staff posting on DBC social media accounts.

- We use a subscription service that manages and secures accounts.

o Social Media Management System
o Dedicated communications specialists

STRATEGIC RISK REGISTER

December 2017



- Weak authentication in the use of social media accounts can lead to them being hacked. The hacked accounts are then used to post inappropriate, derogatory or libellous comments.

- The use of social media can make it easier for 'pressure groups' to generate support behind negative campaigns.

- All staff are required to read and sign-up to a range of policies including:

- Corporate Information Security Management Policy
- Corporate Information Technology Security Policy
- Data Protection Act Policy
- Freedom of Information Policy
- PSN/Government Connect (GSx) Acceptable Usage Policy
- Information Security Incident Procedure

Sign Off and Comments

Sign Off Complete

We continue to operate a proactive and engaged social media programme, which is managed by a Communications Team with significant social media experience.

In Q3 we posted over 1,650 outbound messages across our 15 social media accounts, received over 600 direct messages which were responded to in accordance with our social media policy and guidance, and had a total potential twitter reach of 4.68 million viewers across our social media networks. The success of our social media work is reflected in the local government ranking which regularly places Dacorum Borough Council as one of the highest ranked (of the 10 borough councils in Hertfordshire).

In January, we will also undergo an internal audit of our social media process as part of the internal audit programme (Mazars).

Agenda Item 6



Grant Thornton

An instinct for growth™

James Deane
Corporate Director, Finance and Operations
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23 January 2018

Dear James

Certification work for Dacorum Borough Council for year ended 31 March 2017

We are required to certify the Housing Benefit subsidy claim submitted by Dacorum Borough Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim for the financial year 2016/17 relating to subsidy claimed of £47,808,228. Further details are set out in Appendix A.

We found the Council had put in place adequate arrangements to compile and complete accurate and timely claims for audit certification. We did not identify any issues in our certification work which we wish to highlight for your attention. No errors were identified in our work, the claim was unqualified, and we reported our findings to the DWP on 29th November 2017 before the deadline.

The indicative scale fee set by the Audit Commission for the Council for 2016/17 is £17,543. We are not proposing to make any changes to the indicative scale fee.

Yours sincerely

A handwritten signature in blue ink that reads "Grant Thornton UK LLP".

Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2016/17

| Claim or return | Value | Amended? | Amendment value | Qualified? | Comments |
|--------------------------------|--------------|-----------------|------------------------|-------------------|-----------------|
| Housing benefits subsidy claim | £47,808,228 | No | N/A | No | N/A |

External Audit Plan

Year ending 31 March 2018

Darlington Borough Council

7 February 2018

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Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Dacorum Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of [ANOTHER Council]. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks

Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- the presumed risk (under ISA 240) of management override of controls
- the risk that revaluation measurements relating to property, plant and equipment are not correct
- the risk that the valuation of the pension liability in the accounts is not correct

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £3.088 million (PY £2.889 million), which equates to 2% of your prior year audited gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £154,400 (PY £144,500).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money is ongoing and we have more detailed work around these arrangements planned for our interim visit in March/April 2018 (see page 11 for our planned timeline). So far we have not identified any specific VFM significant risks, but we will update the Audit Committee at the next meeting with any risks that we identify as we complete the full VFM risk assessment

Audit logistics

We planned risk assessment and interim visits with management; one has already taken place in the week commencing 15 January 2018 and the others will take place in March and April 2018. Our final visit will take place in July 2018. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £73,350 (PY: £73,350) for the Council.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

Deep business understanding

Changes to service delivery

Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. A new version is due to be published in December 2017.

Regeneration and provision of housing

You have large regeneration projects ongoing in the borough along with plans to develop a variety of social and other types housing to address the shortage of affordable homes in the area (a trend seen nationally).

You are thinking and planning laterally in terms of how to deliver these projects in the most cost-effective way; including partnership working and looking at the types of entity/vehicle the delivery should be undertaken by.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

Housing Revenue Account (HRA)

DCLG has issued revised guidance on the calculation of the Item 8 Determination for 2017/18, which :

- extends transitional arrangements for reversing impairment charges and revaluation losses on dwelling assets and applies this principle to non-dwelling assets from 2017/18,
- confirms arrangements for charging depreciation to the HRA and permitting revaluation gains that reverse previous impairment and revaluation losses to be adjusted against the HRA.

Key challenges

Financial pressures

Looking ahead to the 2020 year you have identified a savings gap of £3.6-3.7 million. This includes a General Fund savings target of £3.6 million for the 2017-18 year.

You have set out a 3 year efficiency/savings plan to address the gap which is service focussed and clearly identifies each saving. While this is still clearly a challenge, your current financial position indicates this is under control.

You have set a balanced budget for the 2017-18 year and at Month 8 you are forecasting a small favourable variance in the movement on the General Fund of £285k. Your 2018-19 savings proposals are 90% on track.

Impacts of Grenfell Tower fire

The Grenfell Tower fire disaster in 2017 has led to the identification of approximately 150 high rise buildings in local authority ownership that have failed fire safety tests. Local authorities are expected to make these buildings fire safe. DCLG are reviewing the current restrictions on the use of the financial resources that prevent local authorities from making essential fire safety upgrades.

In line with government requests, you carried out checks on all tower blocks of 6 stories and over and none were found to be unsafe. Other landlords in the borough have been taking similar steps to confirm they are in compliance on cladding and fire safety.

Our response

- We will consider your arrangements for managing and reporting your financial resources[, including your progress on devolution and/or use of investment vehicles] as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code, [revised stock valuation guidance for the HRA] and the impact of impairment assessments and the adequacy of provisions in relation to essential work on high rise buildings.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|--|--|
| The revenue cycle includes fraudulent transactions | <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> | <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Dacorum Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Dacorum Borough Council.</p> |
| Management over-ride of controls | <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p> | <p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • review prior year estimates against the actual income/expenditure received • review and walkthrough the control environment and assess the design effectiveness of controls around manual journal entries • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions. |

Significant risks identified

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|--|--|---|
| <p>Valuation of property, plant and equipment</p> | <p>The Council revalues its assets on a rolling basis over a five year period, and for certain higher value assets every year, using an external valuer Wilks Head and Eve LLP. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p> | <p>We will:</p> <ul style="list-style-type: none"> • review and walkthrough of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • consideration of the competence, expertise and objectivity of any management experts used • discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions • review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding • review of management's processes and assumptions for the vouching and challenge of the estimate • testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to fair value • review of the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS |
| <p>Valuation of pension fund net liability</p> | <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p> | <p>We will:</p> <ul style="list-style-type: none"> • identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out • undertake procedures to confirm the reasonableness of the actuarial assumptions made. • check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary |

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

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| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|-------------------------------------|---|---|
| <p>Employee remuneration</p> | <p>Payroll expenditure represents a significant percentage (19% based on the 2016-17 audited accounts) of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with a number of different sub-systems (including a SAP based payroll system administered by service provider Serco) there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p> | <p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness • gain an understanding and walkthrough the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls • obtain year-end payroll reconciliation and ensure amount in accounts can be reconciled to ledger and through to payroll reports. Investigate significant adjusting items • perform substantive analytical review of the year-on-year variance in payroll expenditure in the accounts and trend analysis to highlight any unusual variances and obtain explanations for these from management |
| <p>Operating expenses</p> | <p>Non-pay expenses on other goods and services also represents a significant percentage (58% based on the 2016-17 audited accounts) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p> | <p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness • gain an understanding and walkthrough the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls • document the accruals process and the controls management have put in place, including challenge of any key underlying assumptions, the appropriateness of the source of data used and the basis for calculations • obtain a listing from the cash book or equivalent of non-pay payments made in April, and test a sample to ensure that they have been charged to the appropriate year |

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

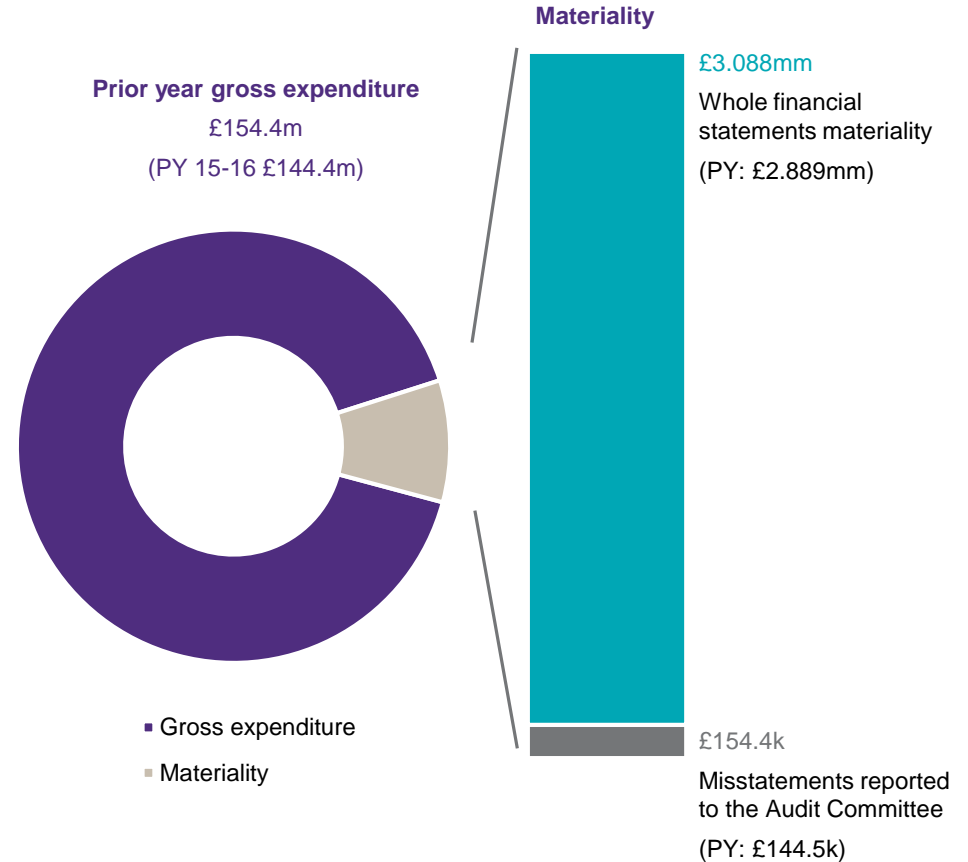
We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £3.088 million (PY £2.889 million), which equates to 2% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £154,400 (PY £144,500).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

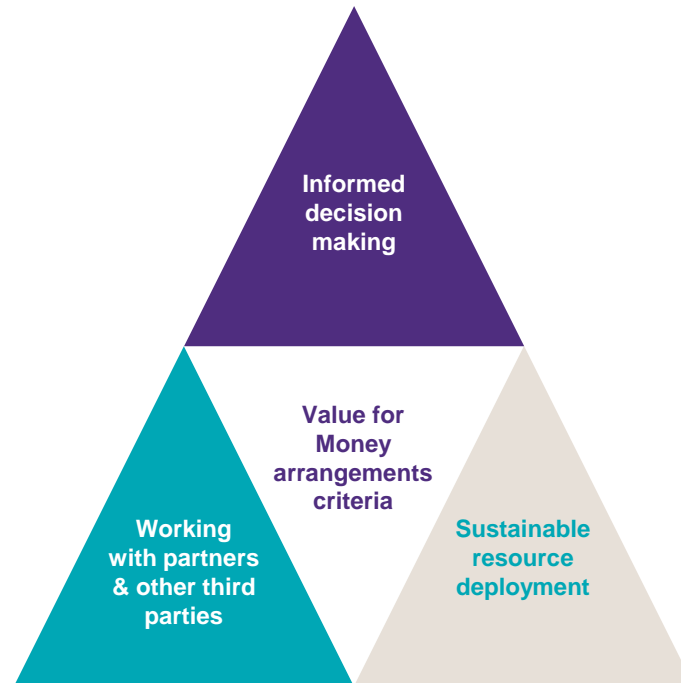
“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:

Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.

So far in our risk assessment visit, we have not identified any significant risks. We will continue to review our risk assessment around whether the Council has proper arrangements in place in our subsequent planned interim visits (see page 11) and we will report back to the Audit Committee if our risk assessment and subsequent approach changes.



Audit logistics, team & audit fees



Sarah Ironmonger, Engagement Lead



Andy Conlan, Engagement Manager



Danielle Floyd, Audit In-charge

Audit fees

The planned audit fees are no less than £73,350 (PY: £73,350) for the financial statements audit and £22,220 (PY: £17,543) for the certification of housing benefit subsidy. Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We know in previous years you have been able to meet the earlier close timeframe and are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Achieving the earlier deadline requires a joint effort from audit and finance teams. Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging our other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 11).

Whilst we do not anticipate delays during the audit of your accounts, we have set out our likely response if the situation arose where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations, we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations, we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

As we have previously agreed with you, our expectations of your finance team is that you will:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Non-audit services

The following non-audit services were identified.

| Service | Fees £ | Threats | Safeguards |
|---|--------|---|---|
| Audit related | | | |
| Certification of Housing capital receipts grant | £2,000 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,000 in comparison to the total fee for the audit of £73,350 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level. |

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Appendices

A. Revised ISAs

B. ...]

C. ...]

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Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

| Section of the auditor's report | Description of the requirements |
|---|--|
| Conclusions relating to going concern | We will be required to conclude and report whether: <ul style="list-style-type: none">• The directors use of the going concern basis of accounting is appropriate• The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern. |
| Material uncertainty related to going concern [replaces conclusions relating to going concern when a material uncertainty is identified and disclosed] | We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report. |
| Other information | We will be required to include a section on other information which includes: <ul style="list-style-type: none">• Responsibilities of management and auditors regarding other information• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation• Reporting inconsistencies or misstatements where identified |
| Additional responsibilities for directors and the auditor | We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern. |
| Format of the report | The opinion section appears first followed by the basis of opinion section. |

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Agenda Item 8



DACORUM BOROUGH COUNCIL

INTERNAL AUDIT PROGRESS REPORT

Audit Committee – February 07 2018

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Introduction

This progress report to the Audit Committee covers the work carried out during the period April 1st 2017 to January 31st 2018 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

Progress against the 2017/18 Internal Audit plan is shown in Appendix 1 and shows the status of work to date and the number of days delivered. At the time of this report, progress against the plan is as follows:

| | | |
|--|-----------|-------------|
| Number of audits in plan | 16 | |
| Number of audits finalised | 8 | 50% |
| Number of audits issued at draft | 3 | 19% |
| Number of audits currently in progress | 1 | 6% |
| Number of audits with planned start dates | 3 | 19% |
| Number of audits with start dates to be agreed | 1 | 6% |
| Total | 16 | 100% |

We have issued the following Final reports:

- NNDR (Evaluation assurance: **Full**. Testing assurance: **Full**)
- Council Tax (Evaluation assurance: **Full**. Testing assurance: **Full**)
- Housing Benefits and Council Tax Support (Evaluation assurance: **Full**. Testing assurance: **Substantial**)
- Community Contracts (Evaluation assurance: **Full**. Testing assurance: **Substantial**)

We have also issued the following draft reports for which we are awaiting the final management responses before issuing the Final Report:

- Core Financial Controls
- Capital Programme
- Empty Homes

Follow-up of Recommendations

2016/17 and 2017/18

The table below details the recommendations raised in the audit reports for 2016/17 and final reports issued for 2017/18. The summary of the outcome of our follow up work to the 31st October 2017 is shown in the table below:





| Year | Total Recommendations | Implemented / no longer relevant | % | Implemented / partly implemented / no longer relevant | % |
|--------------|-----------------------|----------------------------------|------------|---|------------|
| 2016/17 | 45 | 43 | 96% | 44 | 98% |
| 2017/18 | 11 | 8 | 73% | 8 | 73% |
| Total | 56 | 51 | 91% | 52 | 93% |

Appendix 2 provides a summary of the status of all recommendations where the proposed implementation date was before 31st January 2018.

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 |
|--------------------|--|--|---|
| 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. |

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

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| | Area | Scope | Plan Days | Days Delivered | Start of Fieldwork | Status | Opinion | | Recommendations | | | Comments |
|-------------------------------------|---|--|-----------|----------------|--------------------|---------------------|------------|-------------|-----------------|---|---|----------|
| | | | | | | | Evaluation | Testing | 1 | 2 | 3 | |
| Core Financial Systems | 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 | 13 | Q3 | Draft Report Issued | | | | | | |
| | 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 | 8 | Q3 | Final Issued | Full | Full | - | - | 1 | |
| | NNDR | Covering adequacy and effectiveness of controls including Business Rate Retention Scheme, liabilities, billing, cash collection, recovery and accounting. CRSA to be applied. | 6 | 6 | Q3 | Final Issued | Full | Full | - | - | - | |
| | 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 | 10 | Q3 | Final Issued | Full | Substantial | - | 1 | - | |
| Core Financial Systems Total | | | 46 | 37 | | | | | | | | |

| | Area | Scope | Plan Days | Days Delivered | Start of Fieldwork | Status | Opinion | | Recommendations | | | Comments |
|--------------------------------|-------------------------------|--|-----------|----------------|--------------------|---------------------|------------|-------------|-----------------|---|---|----------|
| | | | | | | | 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 | 8 | Q3 | Draft Report Issued | | | | | | |
| | 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 | 5 | Q1 | Final Issued | Full | Substantial | - | - | 1 | |
| Operational Risks Total | | | 35 | 23 | | | | | | | | |
| Strategic Risks | Information Governance | Covering adequacy and effectiveness of controls over compliance with the Freedom of Information Act and Transparency. | 10 | 10 | Q2 | Final Issued | Full | Substantial | - | 1 | 1 | |
| | Community Contracts | Partnership / contract management assurance in respect of new Community Contracts. A sample of projects in the programme will be selected. | 15 | 15 | Q2 | Final Issued | Full | Substantial | - | 1 | - | |

| | Area | Scope | Plan Days | Days Delivered | Start of Fieldwork | Status | Opinion | | Recommendations | | | Comments |
|--|------------------------------------|--|-----------|----------------|--------------------|---------------------|------------|---------|-----------------|---|---|----------|
| | | | | | | | 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 | 12 | Q3 | Draft Report Issued | | | | | | |
| | General Data Protection Regulation | Covering adequacy and effectiveness of controls over the preparations for General Data Protection Regulation. | 5 | | Q4 | | | | | | | |
| Strategic Risks Total | | | 44 | 37 | | | | | | | | |
| Governance, Fraud & other Assurance Methods | 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 | | Q4 | | | | | | | |
| | 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 | | Q4 | | | | | | | |
| Governance, Fraud & other Assurance Methods | | | 42 | | | | | | | | | |

| | Area | Scope | Plan Days | Days Delivered | Start of Fieldwork | Status | Opinion | | Recommendations | | | Comments |
|--------------------|---|--|------------|----------------|--------------------|------------------|------------|-------------|-----------------|---|---|----------|
| | | | | | | | 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 | 2 | Q4 | Work in Progress | | | | | | |
| ICT total | | | 30 | 17 | | | | | | | | |
| Other | Follow-up of Recommendations | Follow-up of all priority 1 and 2 recommendations made in final reports issued. | 10 | 8 | | | | | | | | |
| | Management (including Audit Committee Training) | | 22 | 15 | | | | | | | | |
| | Ad Hoc | Contingency allocation to be utilised upon agreement of the Assistant Director (Finance & Resources). | 30 | | | | | | | | | |
| Other total | | | 62 | 23 | | | | | | | | |
| | | | | | | | | | | | | |
| TOTAL | | | 259 | 137 | | | | | | | | |

Appendix 2 – Follow-up of Recommendations

A follow-up audit has been undertaken in accordance with the 2017/18 audit plan. The objective was to confirm the extent to which the recommendations made in 2016/17 and 2017/18 internal audit final reports have been implemented.

The tables below provides a summary of the status of all 2016/17 and 2017/18 recommendations raised in final reports issued.

2016/17

| 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 | 3 | - | - | - | 31 Mar 2017 | 30 Sep 2017 | - | Ben Hosier |
| NNDR | 1 | 1 | - | - | - | 30 Jun 2017 | - | - | Stuart Potton |
| Council Tax | 1 | - | - | - | 1 | 31 Dec 2017 | - | - | Chris Baker |
| Core Financial Systems | 2 | 2 | - | - | - | 31 July 2017 | - | - | Richard Baker |
| Benefits Realisation | 1 | - | - | - | - | 28 Feb 2018 | - | 1 | Fiona Jump |
| Housing Benefit and Council Tax Support | 3 | 3 | - | - | - | 30 June 2017 | - | - | Chris Baker |
| Housing Register and Housing Allocations | 3 | 2 | 1 | - | - | 30 Sept 2017 | 31 Mar 2018 | - | Natasha Beresford |

| | | | | | | | | | |
|---|-----------|-----------|----------|----------|----------|-------------|----------|----------|--------------|
| Human Resources | 1 | 1 | - | - | - | 30 Sep 2017 | - | - | Anne Stunell |
| Customer Relationship Management | 2 | 2 | - | - | - | 31 Jan 2018 | - | - | Robert Smyth |
| Delivery of Digital Dacorum Strategy and Associated Projects and Activities | 1 | 1 | - | - | - | 28 Feb 2017 | - | - | Robert Smyth |
| Total | 45 | 42 | 1 | - | 1 | - | - | 1 | |

2017/18

| Title | Raised | Implemented | Partly Implemented | Outstanding | No longer relevant | Original Due Date | Revised Due Date | Not yet due | Resp. Officer |
|------------------------|-----------|-------------|--------------------|-------------|--------------------|-------------------|------------------|-------------|---------------|
| Housing Rents | 2 | 2 | - | - | - | 30 Sept 2017 | 31 Dec 2017 | - | Katie Kiely |
| Off Payroll Engagement | 1 | 1 | - | - | - | 31 Dec 2017 | - | - | Sally Nunn |
| ICT Cyber Security | 4 | 4 | - | - | - | 30 Sep 2017 | 31 Jan 2018 | - | Ben Trueman |
| Information Governance | 2 | - | - | - | - | 31 Mar 2018 | - | 2 | John Worts |
| Council Tax | 1 | - | - | - | - | 30 June 2018 | - | 1 | Chris Baker |
| Community Contracts | 1 | 1 | - | - | - | 31 Jan 2018 | - | - | Alex Care |
| Total | 11 | 8 | - | - | - | | | 3 | |

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

January 2018

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Dacorum Borough Council Final Internal Audit Report Community Contracts

January 2018

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

CONFIDENTIAL

Distribution List:

Alex Care – Community Partnerships Team Leader
Matt Rawdon – Group Manager (People)
Rob Smyth – Assistant Director, Performance
People and Innovation
Corporate Director (Finance and Operations) –
James Deane (Final Only)
Chief Executive – Sally Marshall (Final Only)

Key Dates:

Date of fieldwork: Sept/Oct 2017
Date of draft report: Nov/Dec 2017
Receipt of responses: January 2018
Date of final report: January 2018

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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 Community Contracts.

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 Community Contracts, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Service and Performance Expectations, Contractor’s Performance Management, and Payments.

Summary Assessment

Our audit of the Council’s internal controls operating over Community Contracts 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.

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 Community Contracts is shown in Section 3.

1.3. 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:

- Contractors Performance Management – Meeting Records (Priority 2)

Whilst it is positive that only one Priority 2 recommendation has been raised, there were some areas where further work is required to ensure robust contract management, particularly in respect of performance monitoring framework to monitor whether the desired outcomes have been achieved as a result of the services provided by the contractors. However, we have taken into consideration steps already being taken by the Council and also its plan to further develop

the performance framework. We have therefore not raised specific recommendations regarding the following areas:

- As agreed in advance by all parties, no Key Performance Indicator (KPI) targets have yet been finalised, as the contractors are to use first-year performance to establish baseline data. Performance data has been provided by contractors during the first year and the data will be compiled once the contract reaches its first year anniversary and a year-end report is produced to help set and agree targets with the contractors.
- The contractors provide quarterly monitoring reports. Performance information is not yet to be used as a KPI, however it will be used for performance measurement. The Council has created a new staff post, a role which includes data collection and analysis, and is at present in the process of producing spreadsheets for the contractors to populate each quarter with their performance information. This will then be imported to the Council's Rocket system to assess performance against each KPI.
- Of five quarterly invoices sampled, two had been paid later than specified by the contractor. We were informed that this was due to purchase orders being raised for the annual value of the contract, then being closed when set against the first quarterly invoice. Quarterly purchase orders are now being raised to prevent this issue from recurring.
- For the Reducing Social Isolation contract, spreadsheets are provided showing each service offering's usage and demographic statistics. An "Impact assessment evidence" field includes spaces for feedback from questionnaires, surveys, and reports, however none of these contain entries. The performance requirements of the contract specify that a six-monthly satisfaction survey should be produced. We were informed that the Council had agreed with the contractor that the satisfaction survey could be postponed during the first-year of the contract, as with the overall decision to introduce more rigorous contract monitoring in the contracts' second years, as the priority was to manage other elements of data collection. A satisfaction survey to gauge service user feedback is intended to constitute part of the finalised KPI framework.

Following the conclusion of the first year of the contracts, Internal Audit will follow up the above areas to confirm that they have been addressed.

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

1.4. **Management Response**

We received the management response in a timely manner, and this has 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 Community Contracts, 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:

Service and Performance Expectation

Required level of service standards (such as Service Level Agreement, Key Performance Indicators or any other performance measures) have been defined and agreed to by the Council and contractors to ensure that the expectations of both parties are fully understood and met.

Contractor's Performance Management

Performance of the contractors is monitored regularly with prompt interventions where required to ensure that the contractor fully deliver the required services to a satisfactory standard and the required service outcomes are achieved. A mechanism is in place (or a planned) to assess end user's satisfaction of the services received and outcome achieved as a result of the services received.







Payments

Payments to contractors are made in a complete, accurate and timely manner.

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 |
|-------------------------------------|---|---|-------------------------|
| Service and Performance Expectation |  |  | |
| Contractor's Performance Management |  |  | Recommendation 1 |
| Payments |  |  | |

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: Contractors Performance Management – Meeting Records (Priority 2)

| |
|---|
| <p>Recommendation</p> <p>Before a meeting, an agenda should be circulated where possible to ensure that participants are able to contribute fully.</p> <p>Meeting minutes should be recorded in sufficient detail to identify:</p> <ul style="list-style-type: none"> • The names and job roles of all attendees; • The nature of discussion points; • Any actions agreed; • Deadlines and criteria for these actions; and • The person(s) responsible for implementing any such actions. <p>Agreed deliverables should be listed in an action log as part of meeting records, and this should be monitored to record progress or implementation.</p> |
| <p>Observation</p> <p>Monitoring meetings should take place in order to identify areas of concern and opportunities and manage performance against objectives.</p> <p>For all five Community Contracts, quarterly monitoring meetings are held in order to discuss contractor performance. These are informed by contractor performance reports as well as any other matters attendees wish to address.</p> <p>Meeting records were requested for each of the five Community Contracts, comprising seventeen meetings in total. Of these:</p> <ul style="list-style-type: none"> • In two cases, there was no record of an agenda being circulated in advance. In one instance this was for a mobilisation meeting and we were informed that no agenda was required; • None of the fifteen minutes found listed the persons who attended the meeting; and • For all of the fifteen available minutes, there was no summary action plan recorded. Actions were discussed, and are recorded briefly, however these do not for all cases clearly set out requirements, deadlines, or responsible person(s). <p>Where the discussions that take place during monitoring meetings are not detailed clearly, with summaries of discussion, agreed actions, and responsibilities recorded, there is a risk that agreed actions may not be implemented, or recurring issues may not be identified and addressed promptly.</p> |
| <p>Responsibility</p> <p>Community Partnerships Team Leader</p> |
| <p>Management response / deadline</p> <p>We welcome the recognition that the Community Partnerships Team is employing a sound system in the way these community contracts are being managed. The first year of contract management has been used to establish and cement new working relationships as we have moved from a grant giving process to a contractual relationship, as well as using the data collected to help create robust and evidence based performance targets for year 2 of the contract. The performance management approach in year 1 (including meetings) has been very successful and it has provided beneficial for both parties with actions been taken to ensure the contracts are working as expected. The recommendation of the agenda and meeting note template is accepted (and has been implemented) as this should only add to the usefulness of the meetings going forward.</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:

- Alex Care – Community Partnerships Team Leader
- Jackie Doyle - Accountant

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

January 2018

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Dacorum Borough Council

Final Internal Audit Report

National Non-Domestic Rates (NNDR)

January 2018

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

CONFIDENTIAL

Distribution List:

Chris Baker - Group Manager (Revenues, Benefits and Fraud)

Anna Elliott – Revenues Team Leader

Stuart Potton – Revenues and Benefits Support Team Leader

James Deane – Corporate Director (Finance and Operations) (Final Report Only)

Sally Marshall – Chief Executive (Final Report only)

Key Dates:

Date of fieldwork: November 2017

Date of draft report: January 2018

Receipt of responses: January 2018

Date of final report: January 2018

This report and the work connected therewith are subject to the Terms and Conditions of the Contract dated 1 April 2015 between Dacorum Borough Council and Mazars Public Sector Internal Audit Limited. This report is confidential and has been prepared for the sole use of Dacorum Borough Council. This report must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law, we accept no responsibility or liability to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions.

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1. Executive Summary

1.1. Background

As part of the Internal Audit Programme for 2017/18, we have undertaken an audit of the Council's systems of internal control in respect of National Non-Domestic Rates (NNDR).

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

In summary, the scope covered the following areas: Policies, Procedures and Legislation; NNDR Transactions and Records; Valuation, NNDR Multiplier and Rate Setting; Liability and Reliefs; Billing; Receipts from Rate Payers and Refunds; Suspense Accounts; Recovery and Enforcement; Write-Offs; Management of Collection Rates; and Business Rate Retention.

1.3. Summary Assessment

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

1.4. **Key Findings**

We have not raised any recommendations as part of this audit.

A follow up of the recommendations raised in the 2016/17 NNDR internal audit report was also completed and we found that both recommendations have been implemented. The details of the follow up status are as follows:

Recommendation 1 - High Amount of Uncleared Historic Suspense Account Items (Priority 3)
(this recommendation was raised as part of the Core Financial Systems audit 2016/17)

Implemented - There are currently only 2 items in the NNDR Suspense Account on Northgate totalling £13,416.40. The oldest item is from December 2010 (totalling £50.40) and the newest item is from October 2017 totalling £16,366.00.

Recommendation 2 - Overdue Property Inspections (Priority 2)

Implemented – The latest report provided at the time of audit in November 2017 showed that there were 25 inspections due to be undertaken with the oldest one being raised on 10 October 2017. 21 of those inspections were requested in November and all were within the three months deadline.

1.5. **Management Response**

We did not raise any recommendations to which management response will be required.

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 NNDR, with regards to the areas set out in section 2.3, are adequate and 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

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

NNDR Transactions and Records

Reliability, integrity, confidentiality and security of the NNDR system and ratepayer records is maintained through the reliable operation of the system and its interface with the main accounting systems. NNDR records agree to the Council's Main Accounting (general ledger) systems and also to the bank account.

Valuation, NNDR Multiplier and Rate Setting

New and structurally altered hereditaments are notified to the Valuation Officer Agency (VOA) so that chargeable hereditaments are included on the VOA rating list and these are recorded on the NNDR system in a complete, accurate, valid and timely manner.

NNDR base is updated on the system in accordance with the central government notification.

Liability and Reliefs

Chargeable hereditaments, liable occupiers (corporate bodies / organisations / persons), empty property rates and other relief (mandatory, discretionary and transitional) are identified and applied in a complete, accurate, valid and timely manner and recorded in the authority's accounts in line with regulatory requirements.

There is a proper and independent arrangement for verifying void properties (including retrospective void claims) before a void allowance is given to a particular rate payer. Reliefs are authorised prior to being applied retrospectively and evidence of verification is retained.

Billing

Annual reconciliations between the gross debit and the valuation list ensure that the debit set up is based on the most up to date information on the valuation list.

All NNDR income due to the Council are billed in a timely and accurate manner in order to help ensure timely receipt.

Receipts from the Ratepayers and Refunds

All daily income collection reports obtained from the cash receipting system are reconciled with the Revenues Section's own records of income received.

Only valid and authorised refunds are made and approved refunds are processed in a complete and accurate manner.

Suspense Accounts

All unidentified payments are promptly investigated, monitored and authorised before being transferred to appropriate accounts.

Recovery and Enforcement

The Council promptly identifies all accounts where the amount due is not received, and for each outstanding debt, recovery action is undertaken in a prompt, consistent and effective manner.

Write-Offs

Debts are only written-off after all investigation and appropriate recovery actions have been exhausted. Write-offs are accurate and are processed in accordance with the Council's Financial Regulations.

Management of Collection Rates

Periodical monitoring of collection rates against the targets takes place to ensure that the expected income is being received.























Business Rates Retention

Contributions to CLG are completely, accurately, validly and timely paid and recorded in the Council's accounts in accordance with regulatory requirements.

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 & Legislation |  |  | |
| NNDR Transactions and Records |  |  | |
| Valuation, NNDR Multiplier and Rate Setting |  |  | |
| Liability and Reliefs |  |  | |
| Billing |  |  | |
| Receipts from the rate payers and Refunds |  |  | |
| Suspense Accounts |  |  | |
| Recovery and Enforcement |  |  | |
| Write-Offs |  |  | |
| Management of Collection Rates |  |  | |
| Business Rates Retention |  |  | |

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

No recommendations were raised as a result of this audit.

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:

- Anna Elliott - Revenues Team Leader
- Stuart Potton - Revenues and Benefits Support Team Leader
- Chris Baker - Group Manager (Revenues, Benefits and Fraud)
- Nik Kordek - Revenues Lead Officer
- Jake Seabourne - Systems Development and Finance Lead Officer

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

January 2018

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Dacorum Borough Council

Final Internal Audit Report

Council Tax

January 2018

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

CONFIDENTIAL

Distribution List:

Chris Baker - Group Manager (Revenues, Benefits and Fraud)
Anna Elliott – Revenues Team Leader
Stuart Potton – Revenues and Benefits Support Team Leader
James Deane – Corporate Director (Finance and Operations)
(Final Report Only)
Sally Marshall – Chief Executive (Final Report only)

Key Dates:

Date of fieldwork: November 2017
Date of draft report: January 2018
Receipt of responses: January 2018
Date of final report: January 2018

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1. Executive Summary

1.1. Background

As part of the Internal Audit Programme for 2017/18, we have undertaken an audit of the Council's systems of internal control in respect of Council Tax.

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 Council Tax, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Policies, Procedures and Legislation; Council Tax Transactions and Records; Valuation and Tax Setting, Discounts, Exemptions, Allowances and Premiums; Billing; Receipts from Rate Payers and Refunds; Suspense Accounts; Recovery and Enforcement; Write-Offs; and Management of Collection Rates.

1.3. Summary Assessment

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

1.4. **Key Findings**

We have raised one Priority 3 recommendation where we believe there is scope for improvement within the control environment. The recommendation raised has been set out below:

- Historic Items in the Suspense Account (Priority 3).

Historic payments allocated to the Council Tax should be investigated and cleared to ensure that all income received by the Council has been correctly allocated, and to contribute to the effectiveness of the debt recovery process.

A recommendation was raised in the 2016/17 Council Tax internal audit report regarding the historic items in the Suspense Account. Follow up of this recommendation found that it has not been fully implemented and a recommendation has been re-raised in this audit (see Recommendation 1 for details).

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

1.5. **Management Response**

We received the management responses in a timely manner, and these have been included in the main body of the 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 Council Tax, with regards to the areas set out in section 2.3, are adequate and 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

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

Council Tax Transactions and Records

Reliability, integrity, confidentiality and security of the Council Tax system and taxpayer records is maintained through the reliable operation of the system and its interface with the main accounting systems. Council Tax records agree to the Council's main financial accounts and also to the bank account.

Valuation and Tax Setting

All relevant properties are set up on the Council Tax system with the correct charge, in accordance with data provided by the Valuation Office. New and structurally altered dwellings are notified to the Valuation Office Agency (VOA) promptly so that chargeable dwellings are included on the VOA valuation listing in a complete, accurate, valid and timely manner, and that these are also recorded on the Council Tax system in accordance with legislative requirements.

Chargeable amounts for each banding are correctly set up on the system in accordance with the approved rates.

Discounts, Exemptions, Allowances and Premiums

Discounts, exemptions and allowances are only applied where applicants meet the set criteria, and they are applied promptly and accurately. Premiums on empty and unfurnished properties are applied promptly and accurately. Periodic reviews are undertaken to identify any taxpayers no longer meeting the criteria of the discounts/exemptions/allowances and actions are taken promptly to withdraw the reliefs where appropriate.

Billing

Accurate rate of Council Tax is raised against all properties based on the property banding.

All Council Tax payers are billed in a timely and accurate manner in order to help ensure timely receipt.

Receipts from Tax Payers and Refunds

All income due from tax payers has been received and recorded accurately.

Only valid and authorised refunds are made. Refunds on closed credit accounts are made in a timely manner.

Suspense Accounts

Any unidentified receipts are coded to the suspense account. These are then investigated and correctly posted in a timely manner so as to avoid inappropriate recovery action.

Recovery and Enforcement

The Council promptly identifies all accounts where the amount due is not received, and for each outstanding debt, recovery action is undertaken in a prompt, consistent and effective manner.

Write-Offs

Debts are only written-off after all investigation and appropriate recovery actions have been exhausted. Write-offs are accurate and are processed in accordance with the Council's Financial Regulations.





















Management of Collection Rates

Collection targets are met and management are provided with sufficient, accurate and timely information on debt collection rates to allow for effective 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 & Legislation |  |  | |
| Council Tax Transactions and Records |  |  | |
| Valuation and Tax Setting |  |  | |
| Discounts, Exemptions, Allowances and Premiums |  |  | |
| Billing |  |  | |
| Receipts from Tax Payers and Refunds |  |  | |
| Suspense Accounts |  |  | Recommendation 1 |
| Recovery and Enforcement |  |  | |
| Write-Offs |  |  | |
| Management of Collection Rates |  |  | |

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: Historic Items in the Suspense Account (Priority 3)

| |
|---|
| <p>Recommendation</p> <p>All historic items in the Northgate suspense account should be investigated and written on if the payment cannot be allocated to the correct account.</p> |
| <p>Observation</p> <p>Unidentifiable payments to the Council Tax bank account are allocated to the suspense account. These payments are then investigated, and efforts are made to allocate the payment to the correct account.</p> <p>Examination of the Council Tax suspense account on Northgate found that at the time of the audit, there were 30 items totalling £2,723.04 being held in the account. The oldest item is over 7 years old, dated 21 April 2010 and totalling £101.68. It should be noted that the number of items in the suspense account and their value have both decreased since the 2016/17 audit and this is reflected in the priority of this recommendation.</p> <p>Where historic items in the suspense account are not allocated, there is a risk of financial loss to the Council where it is unable to fully allocate income received. Furthermore, the effectiveness of debt recovery activities may be compromised.</p> |
| <p>Responsibility</p> <p>Revenues & Benefits Support Team Leader</p> |
| <p>Management response / deadline</p> <p>The suspense account is reviewed each week in order to ensure timely allocation of new payments received; however, there will always be a few of these items which remain unidentified. We will leave these as suspense items for six financial years, in case later enquiries from taxpayers enable us to identify and allocate payments, and then carry out an exercise during the first quarter of each year to write on any items which are then more than six years old.</p> <p>Deadline: the first annual clearance of entries over six years old will be done by the end of June 2018</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:

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|--------------------|---|--|---|
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Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

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|---------------------------------------|--|
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| 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:

- Anna Elliott - Revenues Team Leader
- Stuart Potton - Revenues and Benefits Support Team Leader
- Chris Baker - Group Manager (Revenues, Benefits and Fraud)
- Jake Seabourne - Systems Development and Finance Lead Officer

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

January 2018

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Dacorum Borough Council

Final Internal Audit Report

Housing Benefit & Council Tax Support

January 2018

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

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Distribution List:

Matthew Kelly – Benefits Processing Team Leader
Chris Baker – Group Manager (Revenues, Benefits & Fraud)
James Deane – Corporate Director (Finance and Operations)(Final Report only)
Sally Marshall – Chief Executive (Final Report only)

Key Dates:

Date of fieldwork: December 2017
Date of draft report: January 2018
Receipt of responses: January 2018
Date of final report: January 2018

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1. Executive Summary

1.1. Background

As part of the Internal Audit Programme for 2017/18, we have undertaken an audit of the Council's systems of internal control in respect of Housing Benefit and Council Tax Support.

Housing Benefit and Council Tax Support is available to those on a low income and need help paying their rent or council tax. The amount of benefit a claimant would be entitled to is dependent on a number of factors; including, but not limited to; if they have a spare room, the household income, and the amount of savings they have.

The Council maintains a mainly reactive approach with regards to Housing Benefit Reviews. This is because the Council is reliant on the claimant informing them where they have had a change of circumstance, which may affect their benefit entitlement. Late notification of a change of circumstance is the main cause of overpayments of Housing Benefit and Council Tax Support.

It was identified that there is a current running total of £4.4m of overpayments arising from Housing Benefits and Council Tax Support at the Council. This is an accumulation of all overpayments over the last few years. The total value of overpayments has increased by over £410,000 since the 2016/17 audit. Where an overpayment has been realised, the Council is taking a proactive approach to recover all amounts due. However, this recovery process is capped at a standard maximum recovery rate of £11.10 a week through Benefit entitlement. Where the Council has realised an overpayment, the Central Government will provide 40% of the overpayment, in the form of a reimbursement, as an incentive to recover the overpayment amount. If they can recover all of the overpayment, they will retain the payment from the Central Government and will therefore recover 140% of the money originally lost, which can then be used to help meet the cost of benefit administration.

If the Council makes an error exceeding a percentage target, they will not receive any monetary incentive from the Central Government. This is a complex moving target set as a percentage of total errors and total expenditure; the lower limit cap is 0.48% and the Council is currently below this threshold.

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 Benefit and Council Tax Support, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Policies, Procedures and Legislation, Administration and Assessment of New Claims, Local Housing Allowance, Reviews, Backdated Benefits and Discretionary Payments, Payments and Reconciliations, Cancellations, Overpayments and Recovery Action, and Fraud Management.

1.3. Summary Assessment

Our audit of the Council’s internal controls operating over Housing Benefit and Council Tax Support 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 Housing Benefit and Council Tax Support 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. This is set out below:

- Risk Based Verification (RBV) Process (Priority 2).

A follow up of the recommendations raised in the 2016/17 Housing Benefit & Council Tax Support internal audit report was also completed and we found that all three recommendations have been implemented. The details of the follow up status are as follows:

Recommendation 1 – Alignment of Procedure Documents (Priority 3)

Implemented – The RBV Procedures have now been aligned with the Capital Verification procedures to ensure consistency in the process.

Recommendation 2 – Auto-Recovery Setting of Overpayments (Priority 3)

Implemented – The Council produces and reviews every three months a report of invoices without the auto-recovery flag set up to identify whether there are any instances where the flag should be set up and recovery via ongoing entitlement should begin.

Recommendation 3 – Review of Debts Older than Six Years with Sundry Debtors (Priority 3)

Implemented – The Council produces and reviews every three months a report of debts where no recovery action was taken for 6 years or more. These will be reviewed and where appropriate they will be considered for write off.

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

1.5. Management Response

We received the management responses in a timely manner, and these have been included in the main body of the 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 Housing Benefits and Council Tax Support, 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, Procedures and Legislation

Policies and procedures are available to staff which are reviewed on an annual basis. Tasks within the service are allocated to appropriate teams and there is segregation of duties.

Administration and Assessment of New Claims

Claims for Housing Benefits and Council Tax Support are accurately assessed in a fair and timely manner and only valid claims are processed. The Risk Based Verification process has been correctly implemented and appropriate verification action has been taken for the allocated risk score.

Local Housing Allowance

Benefit payments to private tenants are made in a complete, accurate and timely manner in accordance with published rates.

Reviews

Changes in claimant circumstances are identified in a timely manner and necessary action to address changes is undertaken in a timely manner.

Backdated Benefits/Discretionary Payments

Only genuine claims based on well-established criteria of “good cause” are paid against.

Payments and Reconciliations

Only valid, appropriate and accurate payments are made in a timely manner, and balances on the Housing Benefit/Council Tax Support system are regularly reconciled to the Housing Rents and Council Tax systems.

Cancellations, Overpayments and Recovery Action

All cancellations are effected in a timely manner and any overpayments are accurately and completely identified for subsequent recovery action. Only appropriately justified write-offs are made.

















Fraud Management

Adequate and effective processes are in place to detect, prevent, and deal with fraudulent activity in order to ensure the impact of such activity is minimised.

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 |  |  | |
| Administration and Assessment of New Claims |  |  | Recommendation 1 |
| Local Housing Allowance |  |  | |
| Reviews |  |  | |
| Backdated Benefits / Discretionary Payments |  |  | |
| Payments and Reconciliations |  |  | |
| Cancellations, Overpayments and Recovery Action |  |  | |
| Fraud Management |  |  | |

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

Please see Part 2.

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:

- Matthew Kelly Benefits Processing Team Leader
- Stuart Potton Team Leader – Revenues and Benefits
- Chris Baker Group Manager – Revenues, Benefits & Fraud
- Yamini Krishnan Assistant Accountant
- Lyn Smith Sundry Debtors Finance Officer

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

January 2018

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Agenda Item 10

February 2018

AUDIT COMMITTEE: Work Programme 2017-18

| MEETING DATE | DEADLINE TO MONITORING OFFICER | DEADLINE TO MEMBER SUPPORT | ITEMS: | WHO RESPONSIBLE |
|--------------|--------------------------------|----------------------------|--|-------------------------|
| 7/2/18 | | 30/1/18 | Progress Report <ul style="list-style-type: none"> • 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 |
| | | | | |

| | | | | |
|---------|--|---------|---|-------------------------|
| 28/3/18 | | 20/3/18 | Progress Report <ul style="list-style-type: none"> • 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 |
| | | | | |

Agenda Item 13

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