

Audit Agenda



Wednesday 25 July 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 Birnie
Councillor Douris
Councillor McLean

Councillor Silwal
Councillor Taylor (Chair)
Councillor Tindall

Substitute Members:

Councillors G Adshead, Anderson, England, Link, Pringle and Ransley

For further information, please contact 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

To provide an update on the Strategic Risk Register for 2018/19.

Report to Follow

6. DACORUM BOROUGH COUNCIL ANNUAL ACCOUNTS

Report and Final Accounts to follow.

7. HEAD OF INTERNAL AUDIT OPINION/ANNUAL REPORT 2017/18 (Pages 4 - 13)

8. INTERNAL AUDIT PROGRESS REPORT (Pages 14 - 24)

9. INTERNAL AUDIT: SERVICE REPORT (Pages 25 - 36)

To consider the following report

- Housing Rents

10. AUDIT COMMITTEE WORK PROGRAMME (Pages 37 - 38)

To consider the Audit Committee Work Programme for July 2018.

DACORUM BOROUGH COUNCIL

Internal Audit Annual Report

For the year ended: 31 March 2018

Presented to Audit Committee meeting of: 25 July 2018

Contents

- 01 Introduction
- 02 Internal audit work undertaken in 2017/18
- 03 Annual Opinion
- 04 Benchmarking
- 05 Performance of Internal Audit

Appendices

- A1 Summary of Internal Audit Work undertaken in 2017/18
- A2 Statement of Responsibility

In the event of any questions arising from this report please contact Mark Towler, Director, mark.towler@mazars.co.uk or Sarah Knowles, Senior Manager sarah.knowles@mazars.co.uk

Status of our reports

This report ("Report") was prepared by Mazars LLP at the request of Dacorum Borough Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of Dacorum Borough Council and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in Appendix A2 of this report for further information about responsibilities, limitations and confidentiality.

01 Introduction

Scope and purpose of internal audit

The Accounts and Audit Regulations 2015 came into effect on 1 April 2015 and require councils to undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance.

This opinion forms part of the framework of assurances that is received by the Council and should be used to help inform the Annual Governance Statement. Internal Audit also has an independent and objective consultancy role to help line managers improve risk management, governance and control.

Our professional responsibilities as internal auditors for the year ended 31 March 2018 are set out within Public Sector Internal Audit Standards (PSIAS) produced by the Internal Audit Standards Advisory Board.

The report summarises the internal audit activity and, therefore, does not include all matters which came to our attention during the year. Such matters have been included within our detailed reports to the Audit Committee during the course of the year.

Acknowledgments

We are grateful to the Chief Executive, Corporate Directors, Assistant Director (Finance and Resources), and other staff throughout the Council for the assistance provided to us during the year.

02 Internal Audit Work undertaken in 2017/18

Our Internal Audit Plan for 2017/18 was considered and approved by the Audit Committee at its meeting on 08 February 2017. The Plan was for a total of 259 days including ten days Follow Up, 30 days for Contingency and 22 days Audit Management.

The audit findings in respect of each review, together with our recommendations for action and the management response were set out in our detailed reports. A summary of the reports we have issued is included at *Appendix A1*. The appendix also describes the levels of assurance we have used in assessing the control environment and effectiveness of controls and the classification of our recommendations.

No priority 1 recommendations were raised during the year.

03 Annual Opinion

Scope of the Internal Audit Opinion

In giving our annual audit opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the Council is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

In arriving at our opinion, we have taken the following matters into account:

- The results of all audits undertaken during the year ended 31 March 2018;
- Whether any Priority 1 or Priority 2 recommendations have not been accepted by management and the consequent risks;
- The effects of any material changes in the organisation's objectives or activities;
- Matters arising from previous reports to the Audit Committee;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation; and
- What proportion of the organisation's internal audit needs have been covered to date.

Annual Opinion

From the internal audit work undertaken in compliance with the PSIAS in 2017/18, it is our opinion that we can provide **Substantial Assurance** that the system of internal control in place at Dacorum Borough Council for the year ended 31 March 2018 accords with proper practice. Matters arising during the year have been discussed with management, to whom we have made recommendations which have been, or are in the process of being addressed, as detailed in our individual reports.

In reaching this opinion, the following factors were taken into particular consideration:

Corporate Governance and Risk Management

Following the development of the Assurance Framework in 2015/16, we selected a sample of "key questions" to confirm the evidence to support the statements is in place. Our opinion in this area from an operational perspective has been impacted by the results of a number of audits within the Plan, some of which were aligned to the risks and mitigating controls recorded on the Council's Strategic and Operational Risk Registers. For example, the review of Community Infrastructure Levy was completed as it was a mitigating control for one of the Council's key risks (I3) relating to the Council's approach to investment in infrastructure.

Internal Control

Of the eighteen audits undertaken in the year where we provided a formal assurance level, eight were given a 'Full' level of assurance, and ten were given a 'Substantial' level of assurance.

During the year, we have made 9 'Priority 2' recommendations. 11 recommendations categorised as 'Priority 3' were also made.

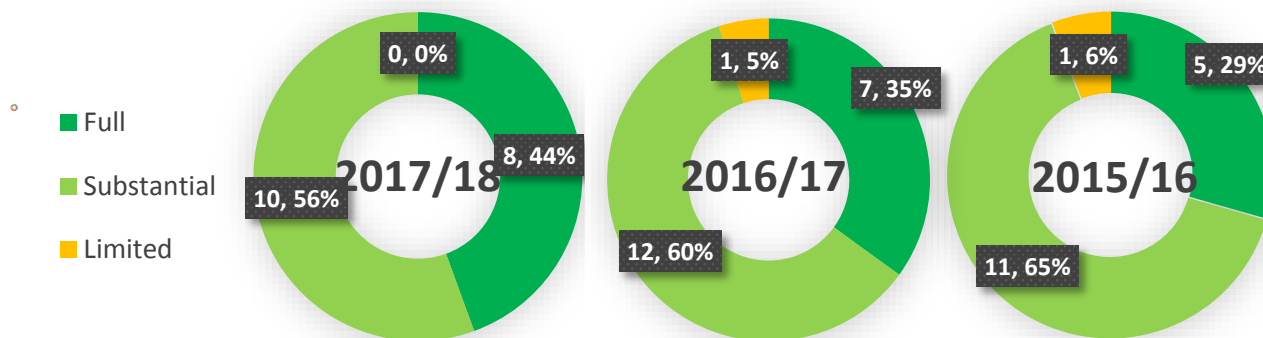
In respect of follow up of recommendations, internal audit has an established process for tracking the implementation of recommendations made in their audit reports and report on their status to each Audit Committee. During the year, we reviewed the implementation of recommendations as they fell due.

All recommendations made during the year were accepted by Management.

04 Benchmarking

This section compares the Assurance Levels (where given) and categorisation of recommendations made at Dacorum Borough Council.

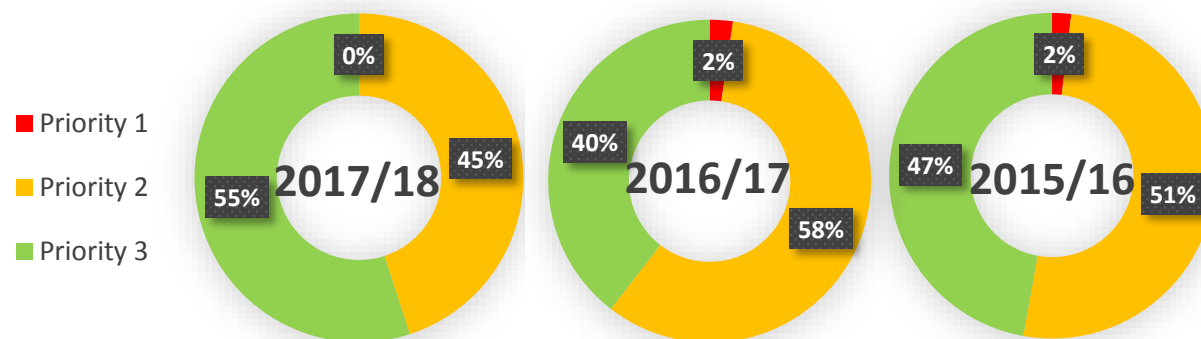
Comparison of Assurance Levels (where given)



Of the 55 audits where an assurance level has been provided in the past three years, 'Full' assurance has been provided in 20 cases, 'Substantial' assurance has been provided in 33 cases and two audits provided 'Limited' assurance.

Page 8

Comparison of Recommendations by categorisation



Over the past three years, a total of 116 recommendations have been made. 2 Priority One recommendations have been raised, 61 recommendations were categorised as Priority 2 and 53 categorised as 'Priority 3'.

05 Performance of Internal Audit

Compliance with professional standards

We employed a risk-based approach to determining the audit needs of the Council at the start of the year and used a risk based methodology in planning and conducting our audit assignments. Our work has been performed in accordance with the requirements of PSIAS and the Global Institute of Internal Auditors International Professional Practices Framework (IPPF).

Internal Audit Quality Assurance

In order to ensure the quality of the work we perform, we have a programme of quality measures which includes:

- Supervision of staff conducting audit work;
- Review of files of working papers and reports by managers and partners;
- Annual appraisal of audit staff and the development of personal development and training plans;
- Sector specific training for staff involved in the sector;
- Regular meetings of our Sector Strategy Groups, which issues technical guidance to inform staff, and provide instruction with regard to technical issues; and
- The maintenance of the firm's Internal Audit Manual.

Conflicts of Interest

There have been no instances during the year which have impacted on our independence and/or lead us to declare any interest.

Performance Measures

We have completed our audit work in accordance with the agreed revised plan and each of our final reports has been reported to the Audit Committee.

Satisfaction surveys have been issued to the Council for each audit together with the final report. Of the five surveys completed (28%), four surveys have been returned as "very good" (80%) and one has been returned as "good" (20%). This is similar to last year where six surveys were received (30%). Of those, five were "very good" (83%) and one was "good" (17%).

Regular progress meetings were held with the Assistant Director (Finance and Resources). No major issues were raised.





A1 Summary of internal audit work undertaken in 2017/18

The following reviews were undertaken during the 2017/18 audit year:

Auditable Area	Level of Assurance (if appropriate)	Days		Recommendations				
		Budget	Actual	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total	Total agreed by Management
Main Accounting	Full / Full	15	15				-	-
Accounts Payable	Full / Full						-	-
Accounts Receivable	Full / Substantial			1	1	1	1	1
Treasury Management, Cash & Bank	Full / Full						-	-
Budgetary Control	Full / Full	7	7				-	-
Benefits/Savings Realisation	Full / Full	10	10				-	-
Council Tax	Full / Full	8	8			1	1	1
NNDR	Full / Full	8	8				-	-
Housing Benefit and Council Tax Support	Full / Substantial	8	8		1		1	1
Empty Properties	Full / Substantial	10	10		1		1	1
Community Infrastructure Levy	Substantial / Substantial	10	10		2		2	2
Housing Rents	Full / Substantial	10	10		1	1	2	2
Off Payroll Engagements	Full / Full	5	5			1	1	1

Information Governance	Full / Substantial	15	10		1	1	2	2
Community Contracts	Full / Substantial	15	15		1		1	1
Capital Programme	Full / Substantial	14	14			2	2	2
Cyber Essentials	Full / Substantial	15	15		1	3	4	4
Social Media (draft)	Full / Substantial	15	15			2	2	2
Totals					9	11	20	20
%					45%	55%	100%	100%

We use the following levels of assurance and recommendation classifications within our audit reports:

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.

A2 Statement of Responsibility

We take responsibility to Dacorum Borough Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any 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.

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.

This report is confidential and 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 Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, re-interpretation amendment and/or modification by any third party is entirely at their own risk.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom. Registered in England and Wales No 0C308299.



DACORUM BOROUGH COUNCIL

INTERNAL AUDIT PROGRESS REPORT

Audit Committee – July 25 2018

Status of our reports

This report ("Report") was prepared by Mazars LLP at the request of Dacorum Borough Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of Dacorum Borough Council and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in Appendix C of this report for further information about responsibilities, limitations and confidentiality.

CONTENTS

Introduction	1
Background.....	1
Progress to Date	1
Follow-up of Recommendations.....	2
Priority 1 Recommendations	4
Appendix 1 – Status of Audit Work 2018/19.....	5
Appendix 2 – Follow-up of Recommendations.....	8
Appendix 3 - Statement of Responsibility.....	9

Introduction

This progress report to the Audit Committee covers the work carried out during the period April 1st 2018 to July 16th 2018 by Mazars.

Appendix 1 outlines progress to date against the 2018/19 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 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 Corporate Director (Finance & Operations) 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 2018/19 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	14	
Number of audits finalised	1	7%
Number of audits issued at draft		
Number of audits currently in progress	1	7%
Number of audits with planned start dates	1	7%
Number of audits with start dates to be agreed	11	79%
Total	14	100%

We have issued the following Final reports since the last Audit Committee meeting:

- Housing Rents (Evaluation assurance: **Full**. Testing assurance: **Substantial**)

Follow-up of Recommendations

2017/18

The table below details the recommendations raised in the audit reports for 2017/18. The summary of the outcome of our follow up work to the 31st May 2018 is shown in the table below:





Year	Total Recommendations	Implemented / no longer relevant	%	Implemented / partly implemented / no longer relevant	%
2017/18	18	13	72%	13	72%
2018/19	3	2	66%	2	66%
Total	21	15	71%	15	71%

Appendix 2 provides a summary of the status of all recommendations where the proposed implementation date was before 31st May 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 2018/19

Page 20

	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 a high level of assurance: continuous auditing methods will be used in these areas to cover the adequacy and effectiveness of the Key Controls in place across the four area	20		Q2-Q4							
	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.	8		Q4							
	Council Tax	Covering adequacy and effectiveness of controls including liabilities, billing, cash collection, recovery and accounting. CRSA to be applied.	8		Q3							
	NNDR	Covering adequacy and effectiveness of controls including Business Rate Retention Scheme, liabilities, billing, cash collection, recovery and accounting. CRSA to be applied.	8		Q3							
	Housing Benefit and Council Tax Support	Covering adequacy and effectiveness of controls including new claims, size criteria, benefit caps, amendments, backdated benefits, payments and reconciliations. CRSA to be applied.	8		Q3							
Core Financial Systems Total			52									

	Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							Evaluation	Testing	1	2	3	
Operational Risks	Business Continuity	Covering adequacy and effectiveness of the Council's arrangements for Business Continuity including maintenance and testing of plans.	10		Q3							
	Planning	Covering adequacy and effectiveness of controls in place over planning applications, including new national changes.	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	2	
Operational Risks Total			30	10								
Strategic Risks	General Data Protection Regulation	Covering adequacy and effectiveness of controls over preparations for General Data Protection Regulations.	15	1	Q2	ToR Issued						
	Commercial Asset Management	Covering adequacy and effectiveness of controls over management of garages within the Borough.	15	0.5	Q2	Scoping Meeting held						
	Procurement	To provide assurance over the Council's controls in place in relation to the governance and evaluation of significant contracts. The review will focus on particular projects.	15		Q3							
Strategic Risks Total			45	1.5								

	Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							Evaluation	Testing	1	2	3	
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. Risk management workshops and training.	28		Q2-Q4			N/A				
	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		Q2-4							
	Benefits/Savings Realisation	To provide assurance that processes are in place to measure such initiatives. Suggested areas of review are the CSU and PAYE/VAT health checks.	10		Q3							
Governance, Fraud & other Assurance Methods			48									
	TBC	The specific areas will be agreed with management	25		Q3							
ICT total			30									
Other	Follow-up of Recommendations	Follow-up of all priority 1 and 2 recommendations made in final reports issued.	10									
	Management		20	1								
	Ad Hoc	Contingency allocation to be utilised upon agreement of the Assistant Director (Finance & Resources).	20									
Other total			62	1								
TOTAL			250	12.5								

Appendix 2 – Follow-up of Recommendations

A follow-up audit has been undertaken in accordance with the 2018/19 audit plan. The objective was to confirm the extent to which the recommendations made in 2017/18 internal audit final reports have been implemented.

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

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	2	-	-	-	31 Mar 2018	-	-	John Worts
Council Tax	1	-	-	-	-	30 June 2018	-	1	Chris Baker
Community Contracts	1	1	-	-	-	31 Jan 2018	-	-	Alex Care
Capital Programme	2	-	-	-	-	31 Jul 2018	-	2	Fiona Jump
Core Financial Systems	1	1	-	-	-	28 Feb 2018	-	-	Fiona Jump
Empty Properties	1	-	-	-	-	30 Jun 2018	-	1	Natasha Beresford
Housing Benefit and Council Tax Support	1	1	-	-	-	31 Jan 2018	-	-	Matthew Kelly
Community Infrastructure Levy	2	1	-	-	-	31 Jul 2018	-	1	Chris Taylor
Total	18	13	-	-	-			5	

Appendix 3 - Statement of Responsibility

We take responsibility to Dacorum Borough Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any 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.

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.

This report is confidential and 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 Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom.
Registered in England and Wales No 0C308299.





Dacorum Borough Council Final Internal Audit Report Housing Rents

July 2018

This report has been prepared on the basis of the limitations set out on page 10.

CONFIDENTIAL

Distribution List:

Katie Kiely - Team Leader
Layna Warden – Group Manager (Tenants and Leaseholders)
Fiona Williamson - Assistant Director (Housing)
Nigel Howcutt - Assistant Director (Finance and Resources)
James Deane - Corporate Director (Finance and Operations)(Final Only)
Sally Marshall - Chief Executive (Final Only)

Key Dates:

Date of fieldwork: 5th July 2018
Date of draft report: 12th July 2018
Receipt of responses: 13th July 2018
Date of final report: 16th July 2018

Status of our reports

This report ("Report") was prepared by Mazars LLP at the request of Dacorum Borough Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of Dacorum Borough Council and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in Appendix C of this report for further information about responsibilities, limitations and confidentiality.

Contents

1. Executive Summary	1
2. Scope of Assignment	3
3. Assessment of Control Environment.....	4
4. Observations and Recommendations	5
Recommendation 1: Rent Debits – Termination of Tenancy Forms (Priority 2).....	5
Recommendation 2: Rent Arrears – Former Tenant Arrears (Priority 2)	6
Recommendation 3: Recharge of Services Provided to Tenants – Calculation of Charges (Priority 3)	7
Appendix B - Staff Interviewed.....	9
Appendix C Statement of Responsibility.....	10

1. Executive Summary

1.1. Background

As part of the Internal Audit Plan for 2018/19, we completed a risk based audit of the processes in place for Housing Rents.

1.2. Audit Objective and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Housing Rents, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Policies and Procedures, Rent Debits, Rent Receipts, Rent Arrears, Manual Adjustments, Recharge of Services Provided to Tenants in Block of Flats or Supported Housing Scheme, Reconciliations and Follow up of Previous Recommendations.

Summary Assessment

Our audit of the Council's internal controls operating over Housing Rents found there is a sound system of internal control designed to achieve the system objectives. There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Full	Substantial

Management should be aware that our internal audit work was performed according to UK Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment over Housing Rents is shown in Section 3.

1.3. Key Findings

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

- Rent Debits – Termination of Tenancy Forms (Priority 2)
- Rent Arrears – Former Tenant Arrears (Priority 2)
- Recharge of Services Provided to Tenants – Calculation of Charges (Priority 3)

In our previous audit report, a total of two recommendations were raised (one priority 2 and one priority 3 recommendations). We have followed up these recommendations and confirmed that both have been implemented.

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 Housing Rents, with regards to the areas set out in section 2.3, are adequate and are being consistently applied.

2.2. Approach and Methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- discussions with key members of staff to ascertain the nature of the systems in operation;
- evaluation of the current systems of internal control through walk-through and other non- statistical sample testing;
- identification of control weaknesses and potential process improvement opportunities;
- discussion of our findings with management and further development of our recommendations; and
- preparation and agreement of a draft report with the process owner.

2.3. Areas Covered

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

Policies and Procedures

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

Rent Debits

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

Rent Receipts

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

Rent Arrears

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

Recharge of Services Provided to Tenants in Block of Flats or Supported Housing Scheme

Recharges relating to the extra items such as cleaning, lighting, lift maintenance are accounted for correctly and recovered in a full and timely manner.

Manual Adjustments

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

Reconciliation with the General Ledger

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















Follow up of previous recommendations

Recommendations raised in the previous audit have been implemented.

3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

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

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Policies and Procedures			
Rent Debits			Recommendation 1
Rent Receipts			
Rent Arrears			Recommendation 2
Recharge of One Off Services			Recommendation 3
Manual Adjustments			
Reconciliations with the General Ledger			

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

4. Observations and Recommendations

Recommendation 1: Rent Debits – Termination of Tenancy Forms (Priority 2)

<p>Recommendation</p> <p>The Housing Income Team should only process cases for Termination of Tenancies where the Termination of Tenancy Form has been signed and dated by the Tenancy Officers.</p>
<p>Observation</p> <p>Termination of Tenancy Forms are required to be filled out by Tenancy Officers to terminate tenancies already in place. Officers requesting the termination are required to sign the form to demonstrate authorisation. The Officer is also required to date the form to establish if the Housing Income team have entered the termination into Orchard within 24 hours of receiving the termination of tenancy form or before the tenancy has terminated.</p> <p>In one instance from a sample of 10, we found that the Termination of Tenancy form had not been signed or dated before being submitted to the Housing Income Team. The termination had subsequently been processed without the form being returned to the Tenancy Officers to be signed.</p> <p>Where the Termination of Tenancy Forms are not signed before being submitted to the Housing Income Team, there is a risk that staff members are able to request termination of tenancies without the delegated authority to do so.</p> <p>Where the Termination of Tenancy Forms are not dated before being submitted to the Housing Income Team, there is a risk that the KPIs of inputting terminations into Orchard within 24 hours of receiving the form cannot be measured. As a result, assurance cannot be gained that the KPI is being met.</p>
<p>Responsibility</p> <p>Team Leader (Income)</p>
<p>Management response / deadline</p> <p>All officers have been reminded of the need to ensure that forms are properly signed and dated. DCOs have been instructed to return any unsigned/undated forms to the originating officer before actioning them.</p> <p>Completed</p>

Recommendation 2: Rent Arrears – Former Tenant Arrears (Priority 2)

<p>Recommendation</p> <p>The Council should discuss with Orchard representatives as to why the Orchard system has not prompted Housing Income Officers to follow-up on some former tenant arrear cases.</p>
<p>Observation</p> <p>When a tenant is in arrears, the Orchard System automatically recommends the appropriate next stage of action Housing Income Officers should take to recover the debt. However, Housing Income Officers will view each on a case by case basis and make a decision whether or not to go ahead with the action recommended by Orchard.</p> <p>Currently, the Orchard system is required to prompt Housing Income Officers to follow-up on former tenant arrears on a regular basis. However, from a sample of 10 former tenant arrears tested, in two instances (Tenancy Number: 1084081 - £4429.61 and Tenancy Number: 1080831 - £ 4411.57), Orchard had not prompted any action to the Housing Income Officers in two years. As a result, the Housing Income Officers had not undertaken any debt recovery action in at least two years in these two cases.</p> <p>Where the Orchard system does not regularly prompt recovery action to Housing Income Officers, there is a risk that recoverable debt will not be chased. As a result money owed to the Council is not recovered, resulting in financial loss for the Council</p>
<p>Responsibility</p> <p>Business System Developer</p>
<p>Management response / deadline</p> <p>Systems Admin will investigate and address with Orchard as necessary. A report of all FT cases over 6 months old where no action has been taken for 4 weeks or more will be run and checked on a monthly basis.</p> <p>31st October 2018</p>





Recommendation 3: Recharge of Services Provided to Tenants – Calculation of Charges (Priority 3)

<p>Recommendation</p> <p>Where the recharge fees are not explicitly outlined in the Price List document, calculations of how the recharges fees were derived should be clearly outlined on the Recharge Account Request Form.</p>
<p>Observation</p> <p>Tenants are required to meet the full cost of any repairs or clearances that fall outside the scope of the Council’s housing repairs service. These costs are referred to as Recharges. The Recharge Account Request Forms outline the total charged to tenants for Recharges and require sign off by a Resident Service or Call Centre team member. The total set out on the form will determine how much tenants are invoiced.</p> <p>Tenants can request one-off services from the Council. Depending on the Service provided by the Council, the tenants are either charged a pre-quoted standard sum from the price list document or the fees are determined by contractors dependent on the cost of the work carried out.</p> <p>From a sample of 10 recharges tested, in one instance where a contractor had carried out the work, neither the breakdown of the calculations nor the Total sum charged to tenants were documented on the Recharge Account Request Form.</p> <p>Where the calculations and the total costs are not documented on the Recharge Account Request Form, there is a risk that the Council is unable to evidence the reasoning behind the recharge fee charged to tenants.</p>
<p>Responsibility</p> <p>Team Leader (Income)</p>
<p>Management response / deadline</p> <p>Officers have been reminded of the importance of ensuring that a breakdown of any recharge costs is properly recorded.</p> <p>Completed</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	Adequacy of System Design	Effectiveness of Operating Controls
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied, or any weaknesses identified do not affect key controls and are unlikely to impair the achievement of the objectives of the system.
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.	While controls are generally operating effectively, there are weaknesses which 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. Major issues for the attention of senior management and the Audit Committee
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made. Recommendations for local management action in their areas of responsibility.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed. Detailed problems of a minor nature resolved on site through discussions with local management.

Appendix B - Staff Interviewed

The following personnel were consulted:

- Katie Kiely – Team Leader
- Jillian Watson – Lead officer
- Vindhya Shetty – Debit Control Officer
- Alan Parry – Business System Developer
- Keshika Naidoo – Accountant (Housing and Regeneration)
- Clare Dempsey – Trainee Accountant
- Jackie Whitefoot – Recharge Officer

We would like to thank the staff involved for their co-operation during the audit.

Appendix C Statement of Responsibility

We take responsibility to Dacorum Borough Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any 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.

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.

This report is confidential and 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 Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom.
Registered in England and Wales No 0C308299.

Agenda Item 10

July 2018

AUDIT COMMITTEE: Work Programme 2018-19

MEETING DATE	DEADLINE TO MONITORING OFFICER	DEADLINE TO MEMBER SUPPORT	ITEMS:	WHO RESPONSIBLE
25/07/18		16/07/18	DBC Annual Accounts (Sign-off)	Grant Thornton
			External Audit Progress Report	Grant Thornton
			Internal Audit Progress Report	Internal Audit (Mazars)
			Completed Service Reports <ul style="list-style-type: none"> • Housing Rents • GDPR • Counter Fraud 	Internal Audit (Mazars)
			Strategic Risk Register	DBC - Finance
12/09/18		03/9/18	External Audit Progress Report	Grant Thornton
			Internal Audit Progress Report	Internal Audit (Mazars)
			Completed Service Reports <ul style="list-style-type: none"> • Commercial Asset Management 	Internal Audit (Mazars)
			Strategic Risk Register	DBC - Finance
21/11/18		12/11/18	External Audit Progress Report	Grant Thornton
			Internal Audit Progress Report	Internal Audit (Mazars)

			Completed Service Reports <ul style="list-style-type: none"> • ICT • Council Tax • NNDR • Benefits 	Internal Audit (Mazars)
			Strategic Risk Register	DBC - Finance
06/02/19		28/1/19	External Audit Progress Report	Grant Thornton
			Internal Audit Progress Report	Internal Audit (Mazars)
			Completed Service Reports <ul style="list-style-type: none"> • Core Financials • Business Continuity • Procurement • Benefits/Savings Realisation 	Internal Audit (Mazars)
			Strategic Risk Register	DBC - Finance
27/03/19		18/03/19	External Audit Progress Report	Grant Thornton
			Internal Audit Progress Report	Internal Audit (Mazars)
			Progress Report <ul style="list-style-type: none"> • Budgetary Control • Governance and Risk Management • Planning 	Internal Audit (Mazars)
			Strategic Risk Register	DBC - Finance