

Audit Agenda



Wednesday 10 February 2016 at 7.30 pm

DBC Bulbourne Room - Civic Centre

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 Taylor (Chairman)
Councillor G Adshead
Councillor Barnes

Councillor Douris
Councillor Tindall
Councillor W Wyatt-Lowe

Substitute Members:

Councillors Anderson, Ransley, Brown and Link

For further information, please contact J Doyle.

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. DBC AUDIT PLANNING BOARD REPORT 2015-16 (Pages 4 - 21)

6. DBC - INTERNAL AUDIT PROGRESS REPORT - FEB 2016 (Pages 22 - 36)

7. DRAFT DBC INTERNAL AUDIT PLAN 2016-17 (Pages 37 - 43)

8. AUDIT COMMITTEE WORK PROGRAMME - FEBRUARY 2016 (Page 44)

9. EXCLUSION OF THE PUBLIC

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 those items, there would be disclosure to them of exempt information relating to the financial and business affairs of the Council and particular persons.

10. DBC FINAL REPORT - COUNCIL TAX 15/16 (Pages 45 - 55)

Agenda Item 3

DACORUM BOROUGH COUNCIL

AUDIT COMMITTEE MINUTES

16 DECEMBER 2015

Present:

Councillors: Taylor (Chairman)
Barnes Tindall
Douris W Wyatt-Lowe
Elliot Portfolio Holder for Finance & Resources

Officers:

J Deane Corporate Director (Finance & Operations)
D Skinner Assistant Director (Finance & Resources)
R Smyth Assistant Director (Performance)
M Brookes Group Manager (Legal Governance)
J Worts Information Security Manager
R Hill Team Leader, (Licensing)
A Vincent Group Manager (Tenants & Leaseholders)
J Doyle Group Manager Member Support

Others:

M Clarkson MAZARS
N Harris EY LLP
M Hodgson EY LLP

The meeting began at 7.30 pm

58. APOLOGIES FOR ABSENCE

An Apology for absence was submitted on behalf of Councillor Adshead.

59. DECLARATIONS OF INTEREST

None.

60. MINUTES AND ACTIONS

The Parts 1 and II minutes of the meeting on 23 September 2015 were agreed by the Councillors present and signed by the Chairman.

61. PUBLIC PARTICIPATION

None.

62. STRATEGIC RISK REGISTER (Item 5)

This item was introduced by Councillor Elliot as the Portfolio holder for Finance and

Resources.

Councillor Barnes requested that in future the register should contain a 'change reporting' column, indicator or section which will highlight any changes in status from the previous version.

James Deane (JD) Corporate Director (Finance & Operations) advised the committee that any changes would usually be accompanied by a report setting out the details of any change in status.

Councillor Douris drew attention risk C6, Core Management Training Programme - current controls regarding the absence of an actual launch date. In future he would like to see an actual date for commencement stated in the register.

He followed this up by saying how pleasing it was to see the healthy employee turnover figure of 9%.

Cllr Tindall then sought some details on the F6 indicator dealing with new legislation and in particular the impact of recent legislation on the Housing Revenue Fund (HRA). The Corporate Director (Finance & Operations) agreed that the new legislation will severely impact the HRA but it is too early to say how great the impact will be as the details of the legislation are still to be provided and its impact is still being calculated. What is certain is that there will follow a period of uncertainty and that this added to the, as yet, unquantifiable impact of the new Right To Buy regulations will certainly have a significant impact on the Council's finances.

Councillor W Wyatt-Lowe expressed some concern regarding Risk I3, securing significant investment in infrastructure, and DBC council employees having the experience to achieve this aim as these areas traditionally lay with Herts County Council.

JD agreed that the whole area needed managing and he suggested that the committee invite the owner of the risk to attend the next meeting to give an outline of how the risk will be addressed.

Councillor W Wyatt-Lowe then went on to R5, dealing with increased use of Social Media which he feels emphasis DBC being pro-active and producing/making use of social media. However he suggested that there should be more emphasis on monitoring what is said regarding DBC, tracking remarks and rapidly responding to them 24/7.

R Smyth (RS) Assistant Director (Performance) reported that for DBC the 'Crowd Control' information monitoring package performs this function and in addition the Customer Service Unit also monitor communications on a day to day basis in line with our media strategy. The Communications team includes Social Media specialists to oversee the work.

Councillor W Wyatt-Lowe came back with the enquiry, if these systems only operated during the working day, 9-5 hrs? RS informed him that while the staff do indeed work mainly office hours the 'crowd control' software package operated 24 hours and will identify the comments at all times and a rapid response will follow.

Councillor Douris felt that DBC might benefit from a points scoring system similar to that used by HCC and that DBC should use the new media to do more to promote itself. RS added that we employ Google analytics to measure positive and negative views of the Council that may be expressed online and DBC are considering other software which is being looked at as part of the CRM proposals. Our Social media strategy contains a number of methods for promoting ourselves and increasing our profile.

Finally Councillor W Wyatt-Lowe sought and was given assurance that DBC monitor 'streetlife' and that we have worked with them in the past.

Actions

- Future Risk Register should contain a ‘change reporting’ column, indicator or section which will highlight any changes in status from the previous version.
- The Register to state an actual date for commencement
- Owner of Risk I3, securing significant investment in infrastructure to attend the next meeting to give an outline of how the risk will be addressed

63 ANNUAL AUDIT LETTER (Item 6)

M Hodgson, EY LLP, (external auditors) began by saying that he seldom gets to send an audit letter couched in such positive terms and that it is a measure of the improvements in the auditing process he has observed at DBC over recent years. He added that when he began his relationship with DBC his letters were often couched in critical terms but he now finds himself praising the council for its improved systems and processes and in particular this year;

- Being one of the earliest authorities to close its accounts
- Achieving a particularly good value for money conclusion, and
- Looking forward to deal with forthcoming changes in accounting and auditing challenges in the areas of highway and transport infrastructure

He then introduced the new relationship manager Neil Harris who said he intends to follow on where Mark left off. He too felt that the annual audit letter reflects a very positive outlook that should be maintained. He concluded by informing the committee that he intends to submit the plan for the 15/16 Audit in April.

The Chairman thanked the auditors for their efforts and their co-operation with the audit committee, councillors and the finance team. He went on to specifically praise Mark Hodgson (MH) for developing a special and effective working relationship with DBC and, on behalf of everyone, proffered a great deal of thanks for Mark’s steerage and support.

Councillor Barnes drew attention to the Looking Ahead section (4) of the letter and particularly the reference to accounting regarding the Highways Network Asset and asked what is the likely impact on the Council’s Reserves?

MH pointed out that as a local authority DBC will have ‘highways’ assets that depreciate and need to be accounted for. The assets will have to be identified and valued. This will be a considerable amount of work for the council and the auditors will test the results for completeness.

Councillor Tindall asked if this will also cover paths, street furniture and equipment that are currently part of the HRA infrastructure. He suggested that it might lead to improved identification of who owns each asset. Councillor Tindal went on to say that this could lead to three categories of asset; those for which HCC are responsible, those the responsibility of the Borough; and those that might be unadopted – in addition they will have to be categorized into those belonging in the HRA and those affecting the General Fund.

JD added that the recent upgrade of the GIS software and application should contribute to better identification of these assets.

Councillor Douris (in his role as HCC Highway Executive mentioned that HCC already maintain a ‘terrier’ that will identify all but the most bizarre anomalies of street infrastructure. The committee appreciated that this could be a complicated process as it will include Streetlights which could be the responsibility of HCC, DBC General Fund, the HRA, Housing Assoc, etc.

MH said he is expecting the HCC assets being valued to run into millions and that the Council must produce accurate records and meterage. Councillor Douris advised all the districts should talk to HCC as soon as possible. John Worts, Information Security Manager made a request for Councillor Douris to encourage HCC to let DBC have access to the terrier and to share data to facilitate cross-authority work on this valuation.

64. INTERNAL AUDIT Progress report (Item 7)

M Clarkson of Mazars, internal auditors introduced the item by taking the committee through the reports main conclusions; beginning with the conclusions in the Final Reports and the other work being carried out.

He drew attention to the Draft Assurance framework currently under development in partnership with DBC and said the intention is to ensure that DBC have a good framework by the end of quarter 4.

Of the recommendations made, only three were identified as still outstanding and only one Priority 1 recommendation had been made since the last committee.

Cllr Tindall drew attention to the graph dealing with 'follow up recommendations' (page 39/135) and sought clarity on the level of non-compliance indicated in the report. MC explained that the non-compliance was identified after all the options had been tested and is of a minor level.

Cllr Douris sought assurance that the reports which were headed confidential should be in the 'open' agenda. MC said that the general tendency is that the Council should publish the reports but until the Council makes that decision they remain confidential between the auditors and the Council. To assist they will remove the confidential from the report unless their advice is to retain the confidential status.

65. INTERNAL AUDIT Housing Repairs (Item 7)

MC of Mazars introduced this report, drawing attention to the three priority 2 recommendations and the actions taken to address the issues.

Cllr Barnes enquired if tenants are responsible for a full recharge for services received. A Vincent, Group Manager (Tenants & Leaseholders) (AV) informed the committee that a new recharge policy is being developed and that it may include the admin costs. Cllr Barnes suggested that this could indicate that there may be no need for the council to employ a recharge officer; he added that it would be an idea to have Osbournes do this. AV responded that his sections are examining the tasks to ascertain what can and cannot be done 'up front' and what charges should be levied.

Cllr Taylor was anxious to see that the Council's current policies were being implemented correctly and the appropriate charges made. AV pointed out that some tasks, e.g. replacing lost keys, had an 'up front' cost for which a charge could be made, if appropriate but that this was not always the case. MC of Mazars was satisfied that plans are in place to assess the opportunities for charges and to address this issue.

Cllr Tindall suggested that it is not just the Housing sections who are pursuing payments and that a single, Council wide group doing this would be more cost effective than individual services chasing debts.

AV was able to respond that is partly covered by the work being done to establish CRM and may be a shared platform administered by the provider will make it possible.

Resolved:

That the auditor's report be noted.

65 INTERNAL AUDIT parking (Item 7)

MC of Mazars presented the report and recommendations.

Cllr Tindall enquired if the Council's contractors were being encouraged to install smart machinery/systems which would ensure that cars are counted in and out and the cost effectiveness of the scheme analyzed and monitored.

D Skinner, Assistant Director (Finance & Resources) (DS) assured the committee that this is included in the consultants' brief.

He went on to add that the monthly invoice generation process had been improved and that regular, challenging contract meetings were taking place.

Cllr Tindall returned to the matter of missed monthly meetings which could indicate that DBC were not retaining control of this function. DS repeated that regular meetings and measures are now in place to deal with genuine charges and to monitor the work to be done.

Cllr Tindall bemoaned the fact that it has been so difficult to see a full contract and to be restricted to a heavily redacted copy of the Watford Contract. He was informed that this was also included as part of the consultants brief is to examine if the council is getting value for money.

Cllr Douris was pleased to see that dates had been set for the regular monitoring meetings.

He hoped the meetings would allay the concerns expressed in Recommendation 2 and asked the auditor if they were satisfied with the responses. MC replied that despite the heavy redaction they are examining the contract and service provision to insure they provide value for money.

Resolved:

That the auditor's report be noted.

66. INTERNAL AUDIT licensing (Item 7)

MC introduced the audit of this service as 'substantial' and 'substantial' showing nothing to cause concern.

The Councillors made some comments about the need for councillors to be properly trained regarding Licensing. Cllr Douris suggested that the team should find a way to encourage the payment of small amounts by direct debit.

Resolved:

That the report be noted.

67. INTERNAL AUDIT Payment Card Industry Data Security (Item 7)

MC opened this matter with reference to the summary and the 'full'/'substantial' status of the audit. He added that the auditors do not often award full status and that this should be noted. He went on to say that members would be sent the complete summary after the meeting.

Cllr W Wyatt-Lowe asked if the scheme contained adequate defenses against internal fraud. MC responded that the auditors are broadly comfortable with the controls in place. J Worts, Information Security Manager (JW) added that in his opinion DBC have any likely gaps in security well covered.

JW then went on to speak about the rigorous PSN compliance methods that DBC have introduced regarding Data Security. Further guidance to members on good Social media practice and the training are to increase the profile of data security for members. MC stressed that effective password control is fundamental to good security.

Cllr W Wyatt-Lowe requested that members be provided with the following:

- What was the total amount the Council received in card payments over the last year?
- What does this figure represent as a percentage of overall receipts?
- What is the cost to the Council of accepting these transactions? and
- What is the Council doing to reduce this cost?

Action

The Director of Finance agreed to put together the answers to these questions and reply in writing to the members of the committee.

Resolved;

That the report be noted.

68. INTERNAL AUDIT Right to buy (Item 7)

MC advised the committee that one of the main concerns for the auditors was to see that the Council was taking adequate steps to reduce the risk of the right to buy being abused as part of a money laundering scheme. He stressed that it is essential that the council adopts strong procedures to strengthen recording. He pointed out that any increase in the opportunities for right to buy would also mean more likelihood of the scheme being abused.

Cllr Douris suggested that the procedure for Identity and Tenancy checks should include an explicit commitment to be actioned within 28 days of receipt in line with auditor's recommendation 2.

Resolved

That the report be noted and the recommendations of the auditors endorsed.

68. INTERNAL AUDIT Performance Management (Item 7)

MC of Mazars introduced this item which rated a 'Full' and 'Full' assessment which is a very positive message.

Cllr Tindall drew attention to the lack of evidence that officers had attended the performance clinics set up in response to identified issues.

R Smyth, Assistant Director (Performance) (RS) assured the committee that new measure had been introduced to strengthen the performance clinics and permit them to insist that the relevant officers attend. In addition the good work will be expanded to

other services in the new year.

69 WORK PROGRAMME 2015/16

The members considered the Audit Committee work programme for 2015/16

There were no changes or additions to the Work Programme except to look forward to the presentation of the Annual Audit Plan at the February meeting.

The meeting ended at 21.00 pm

Agenda Item 5

Dacorum Borough Council

Year ending 31 March 2016

Audit Plan

Presented to Audit Committee on 10 February 2016

Ernst & Young LLP



Building a better
working world

Audit Committee
Dacorum Borough Council
Civic Centre
Marlowes
Hemel Hempstead
Hertfordshire
HP1 1HH

10 February 2016

Dear Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. For both the accounts audit and especially the VFM audit these are our initial thoughts and we will update the Audit Committee at a subsequent meeting if we make any changes.

We welcome the opportunity to discuss this Audit Plan with you on 10 February 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris
For and behalf of Ernst & Young LLP
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the [PSAA website \(www.psa.co.uk\)](http://www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Dacorum Borough Council give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended;
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness;

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

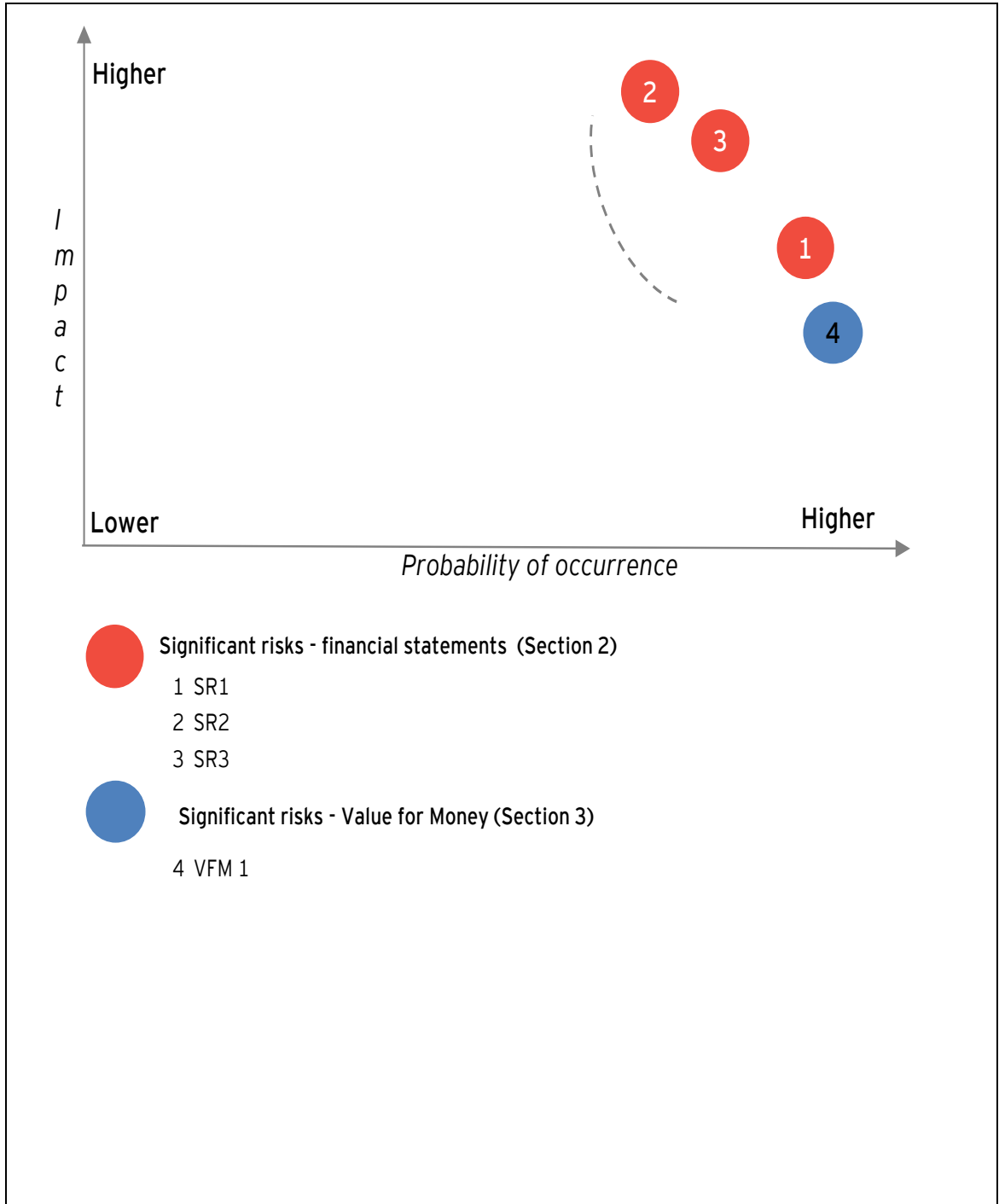
Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

The following 'dashboard' summarises the significant matters that are relevant for planning our audit. More information about each of these risks, and our proposed response, is provided in sections two and three of this report.



2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

| Significant risks (including fraud risks) | Our audit approach |
|--|---|
| Property asset valuation and accounting | |
| <p>The Council undertakes an annual exercise to revalue property assets. The valuation of these assets represents a significant accounting estimate. The accounting entries arising from changes in value are complex and will have a significant impact on the Council's financial statements. The Council is currently working to regenerate an area of Hemel Hempstead town centre. It has acquired a number of properties to facilitate this development. The classification of these properties represents a significant judgment that will determine the basis on which those properties are valued, and therefore has a significant impact on the financial statements.</p> <p>Taken together, these factors present a significant risk to the financial statements, and we will undertake specific testing to address these risks.</p> | <p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ assessing the reliability of management's experts (placing reliance on our own valuation specialists). ▶ testing of the accounting treatment applied to changes in the valuation of property assets. ▶ reviewing management's judgements around the classification of property assets, and testing whether those judgments reflect guidance within the CIPFA Code of Practice. |
| Risk of fraud in revenue recognition | |
| <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> | <p>We will</p> <ul style="list-style-type: none"> ▶ Review and test revenue and expenditure recognition policies ▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias ▶ Develop a testing strategy to test material revenue and expenditure streams ▶ Review and test revenue cut-off at the period end date |
| Risk of management override | |
| <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> | <p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ▶ Reviewing accounting estimates for evidence of management bias, and ▶ Evaluating the business rationale for significant unusual transactions |

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources.

For 2015-16 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risks which we view as relevant to our value for money conclusion.

Significant value for money risks

Our audit approach

Financial planning and management

In recent years the Council has responded well to the financial pressures arising from the recent economic downturn, and reductions in the level of central government funding to local government. These factors and the Council’s current plans to regenerate parts of Hemel Hempstead town centre will impact on the Council’s budget and Medium Term Financial Strategy during the current and forthcoming financial years. The savings target over the life of the current Medium Term Financial Strategy (2015/16-2019/20) is £3.1m.

Our approach will focus on:

- ▶ The adequacy of the Council’s budget setting process.
- ▶ Review of the Council’s Medium Term Financial Strategy
- ▶ The robustness of any budget assumptions and governance,
- ▶ The effective use of scenario planning to assist the budget setting process.
- ▶ The effectiveness of in year monitoring against the budget.
- ▶ The Council’s approach to prioritising resources.
- ▶ Delivery of efficiency or savings programmes.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also:

- ▶ Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require;
- #### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

We plan to take a substantive approach to gaining assurance over the amounts reported in the council's financial statements.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in

the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

| Area | Specialists |
|--------------------|--------------------------|
| Property valuation | Wilks, Head & Eve |
| Pensions | Actuary |
| Loans | Public Works Loans Board |

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Councils environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council, is £2,590k based on 2% of gross expenditure. We will communicate uncorrected audit misstatements greater than £130k to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Dacorum Borough Council is £73,350. Any variation to this fee will need to be approved by PSAA Ltd.

4.6 Your audit team

The engagement team is led by Neil Harris, who has significant experience of Local Government external audit. Neil Harris is supported by Hannah Ormston who is responsible for the day-to-day direction of audit work and is the key point of contact for the Council's Finance team.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council, through the Audit Committee's cycle in 2015/16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

| Audit phase | Timetable | Audit Committee timetable | Deliverables |
|--|-----------------------------|----------------------------------|---|
| High level planning | January 2016 | 10 February 2016 | Audit Fee Letter Progress Report |
| Risk assessment and setting of scopes | January 2016 | 10 February 2016 | Audit Plan |
| Testing routine processes and controls | February 2016 | 27 April 2016 | Progress Report |
| Year-end audit | June & July 2016 | | |
| Completion of audit | July 2016 | 27 July 2016 | Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements; [our opinion on the regularity of your expenditure and income]; and, [by exception] overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return. |
| Conclusion of reporting | October 2016 | 30 November 2016 | Annual Audit Letter |

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 ‘Communication of audit matters with those charged with governance’, requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

| Required communications | |
|--|---|
| Planning stage | Final stage |
| <ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. | <ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues. |

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with PSAA Terms of Appointment.

At the time of writing, we have not provided any non-audit services to the Council, and therefore no additional safeguards are required.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Neil Harris, the audit engagement Director and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

Appendix A Fees

A breakdown of our agreed fee is shown below.

| | Planned Fee 2015/16 £ | Scale fee 2015/16 £ | Outturn fee 2014/15 £ | Explanation |
|---|-----------------------------|---------------------------|-----------------------------|-------------|
| Opinion Audit and VFM Conclusion | 73,350 | 73,350 | 97,800 | |
| Total Audit Fee – Code work | 73,350 | 73,350 | 97,800 | |
| Certification of claims and returns ¹ | 23,036 | 23,036 | 23,390 | |

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We can rely on the work of internal audit as planned;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance. It will also need to be approved by PSAA Ltd.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

¹ Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the [Audit Committee]. These are detailed here:

| Required communication | Reference |
|---|---|
| <p>Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.</p> | ▶ Audit Plan |
| <p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process | ▶ Report to those charged with governance |
| <p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant | ▶ Report to those charged with governance |
| <p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud | ▶ Report to those charged with governance |
| <p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity | ▶ Report to those charged with governance |
| <p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures | ▶ Report to those charged with governance |
| <p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of | ▶ Report to those charged with governance |

| Required communication | Reference |
|--|--|
| <p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence | <ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance |
| <p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements | <ul style="list-style-type: none"> ▶ Report to those charged with governance |
| <p>Significant deficiencies in internal controls identified during the audit</p> | <ul style="list-style-type: none"> ▶ Report to those charged with governance |
| <p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit | <ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary |
| <p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken | <p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p> |

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

Agenda Item 6



DACORUM BOROUGH COUNCIL

INTERNAL AUDIT PROGRESS REPORT

Audit Committee – February 10 2016

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

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Introduction

This progress report to the Audit Committee covers the work carried out during the period April 1st 2015 to January 2016 by Mazars Public Sector Internal Audit Limited.

Appendix 1 outlines progress to date against the 2015/16 Internal Audit Plan.

Background

The purpose of the internal audit plan is to identify the work required to achieve a reasonable level of assurance to be provided by Mazars Public Sector Internal Audit Limited in compliance with the Code of Practice for Internal Audit.

The fundamental role of Internal Audit is to provide senior management and Members with independent assurance on the adequacy, effectiveness and efficiency of the system of internal control, and to report major weaknesses together with recommendations for improvement. This role is fulfilled by carrying out appropriate audit work, normally in accordance with a strategic plan and an annual operational plan, as approved by the Director of Finance and the Audit Committee.

As internal audit is a major source of assurance that the Council is effectively managing the principal risks to the achievement of its corporate objectives, a key rationale for the development of the internal audit plan was the Council's own Corporate and Service Risk Registers and how the internal audit plan can provide this assurance.

Progress to Date

Audit fieldwork on the 2015/16 Internal Audit Plan is progressing well and audit coverage has been in line with the Plan, as shown in Appendix 1.

We have issued the following Final report:

- Council Tax (Evaluation Assurance: **Substantial**. Testing assurance: **Full**).

Other Work:

Assurance Framework

The approach we are taking is based upon us supporting the Council in the development of its draft Assurance Framework and in future years, driving the Internal Audit plan from this framework. The Assurance Framework will provide enhanced assurance around governance procedures and will further enhance the assurance needs of the senior management and other key stakeholders of the Council.

The Key Questions in the framework have been agreed by management, and we have completed identifying the evidence needed to support the statements made. In future years management will need to update the evidence trail and this will be reviewed by Internal Audit. We propose to select a sample of Key Questions during quarter 4 in order to verify the supporting documentation that has been included as evidence in the framework.

Follow-up of Recommendations

2015/16

The table below details the recommendations raised in the audit reports for 2015/16 and 2014/15. It should be noted that progress in implementing recommendations raised has been followed up, as part of the 2015/16 audit plan and summary of the outcome is shown in the table below:





| Year | Total Recommendations | Implemented | % | Implemented or partly implemented | % |
|--------------|-----------------------|-------------|------------|-----------------------------------|------------|
| 2015/16 | 28 | 11 | 39% | 13 | 46% |
| 2014/15 | 39 | 36 | 92% | 39 | 100% |
| Total | 67 | 47 | 70% | 52 | 78% |

Appendix 3 provides a summary of the status of all 2015/16 recommendations where the proposed implementation date was at or before 29th January 2016.

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

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

Appendix 1 – Status of Audit Work 2015/16

| | Area | Scope | Plan Days | | Start of Fieldwork | Status | Opinion | | Recommendations | | | Comments |
|-------------------------------|----------------------------------|--|-----------|----------------|--------------------|--------|------------|---------|-----------------|---|---|----------|
| | | | | Days Delivered | | | 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 2015/16, any controls where there is perceived to be a weakness, and a judgmental sample of other controls in operation across the four areas. | 21 | 15 | January 2016 | WIP | | | | | | |
| | 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 | | March | | | | | | | | |
| | Council Tax | Covering adequacy and effectiveness of controls including liabilities, billing, cash collection, recovery and accounting. CRSA to be applied. | 8 | 8 | November | Final | Substantial | 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. | 8 | 3 | WIP | | | | | | | | |
| | 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 | | March | | | | | | | | |
| Core Financial Systems Total | | | 55 | 26 | | | | | | | | | |
| Operational Risks | Housing Repairs | Covering adequacy and effectiveness of controls over the management of planned and responsive repairs and the demonstration of value for money. The audit will also cover contract management arrangements in place. | 12 | 12 | September | Final | Substantial | Substantial | - | 3 | 1 | | |
| | Parking | Covering adequacy and effectiveness of the controls in place over income collection for on street and off street parking. The audit will also cover contract management arrangements in place. | 12 | 12 | September | Final | Substantial | Substantial | - | 2 | 1 | | |

| | | | | | | | | | | | | |
|--------------------------------|--------------------------------|---|-----------|-----------|----------|-------|-------------|-------------|---|---|---|--|
| | Licensing | Covering adequacy and effectiveness of key controls over applications for and granting of licences and enforcement of those licences. | 8 | 8 | August | Final | Substantial | Substantial | - | 3 | 1 | |
| | Members' Training and Expenses | Covering adequacy and effectiveness of key controls over training and expenses following the elections. | 8 | 6 | January | WIP | | | | | | |
| | Housing Lettings | Covering adequacy and effectiveness of key controls over the allocations process once properties are available to let. | 10 | | March | | | | | | | |
| Operational Risks Total | | | 50 | 38 | | | | | | | | |
| Strategic Risks | Regeneration | Project management assurance in respect of significant regeneration schemes and assurance over grant spending. | 10 | 10 | June | Final | Substantial | Substantial | - | 2 | 4 | |
| | Partnership Arrangements | Review the arrangements in place for joint strategic needs assessments and the changes in commissioning services and the controls in place for data and information sharing.. | 10 | | March | | | | | | | |
| | Health and Safety | Covering adequacy and effectiveness of controls over Health and Safety | 7 | 4 | February | WIP | | | | | | |

| | | | | | | | | | | | | |
|--|---|---|-----------|-----------|----------|-------|------|------|---|---|---|--|
| | Performance Management | Covering adequacy and effectiveness of controls in place regarding the performance management framework and progress in delivering strategic objectives. | 10 | 10 | October | Final | Full | Full | - | - | 1 | Also raised 1 System Improvement Opportunity |
| | Data Security | Covering adequacy and effectiveness of the Council's strategic approach to data security. | 7 | 4 | February | WIP | | | | | | |
| Strategic Risks Total | | | 44 | 28 | | | | | | | | |
| Governance, Fraud & other Assurance Methods | Control Risk Self Assessment including the Corporate Governance Framework | The use of CRSA to provide assurance that managers understand their requirements and take ownership of their responsibilities. To be utilised on a number of the core financials and will be issued prior to fieldwork and used to scope the audit. | 13 | 8 | 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 | 1 | 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. part of the annual governance statement. | 10 | | 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 | | March | | | | | | | | To be included in the Budgetary Control audit |
| Governance, Fraud & other Assurance Methods | | | 43 | 9 | | | | | | | | | |
| ICT | PCI DSS | The specific scope will be agreed with management but would look to provide assurance over the information governance, customer data security and adherence to Caldicott. | 20 | 20 | August | Final | Full | Substantial | - | 3 | 1 | | |
| | Digital Dacorum (Including CRM) | The specific scope will be agreed with management but would look to provide assurance over pre and post implementation reviews and focus on strength of controls. | 10 | | Q4 | | | | | | | | |
| ICT total | | | 30 | 20 | | | | | | | | | |
| Other | Follow-up of Recommendations | Follow-up of all priority 1 and 2 recommendations made in final reports issued. | 10 | 10 | | | | | | | | | |
| | Management (including Audit Committee Training) | | 25 | 18 | | | | | | | | | |
| | Ad Hoc | Contingency allocation to be utilised upon agreement of the Assistant Director (Finance & Resources). Risk Management Workshops Right to Buy | 30 | 10 | October | Final | Substantial | Limited | 1 | 2 | 2 | | |
| Other total | | | 65 | 38 | | | | | | | | | |
| | | | | | | | | | | | | | |
| TOTAL | | | 287 | 159 | | | | | | | | | |

Appendix 2 - Summary of Final Reports

Brief outlines of the work carried out, a summary of our key findings raised and the assurance opinions given in respect of the final reports issued since the last meeting of the Audit Committee are provided in this section.

Council Tax (2015/16)

Our audit of DBC's internal controls operating over Council Tax found that 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. 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 |
|-----------------------|--------------------|
| Substantial | Full |

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

- A monthly report should be produced and analysed from the Northgate system showing all payments made into closed accounts. Payments made to closed accounts should then be investigated and allocated to the correct account. This is an attempt to increase the speed that transfers of credit can be made.
- A sample of refunds should be assessed each quarter in order to monitor that refunds are being processed in a timely manner. (Priority 2)

Appendix 3 – Follow-up of Recommendations 2015/16

A follow-up audit has been undertaken in accordance with the 2015/16 audit plan. The objective was to confirm the extent to which the recommendations made in 2015/16 internal audit final reports have been implemented.

The tables below provide a summary of the status of all 2015/16 recommendations where the proposed implementation date was at or before 29th January 2016 and had not been reported as implemented at the previous Audit Committee meeting.

| Title | Raised | Implemented | Partly Implemented | Outstanding | No longer relevant | Original Due Date | Revised Due Date | No Response | Not yet due | Resp. Officer |
|------------------------|-----------|-------------|--------------------|-------------|--------------------|--------------------------|------------------|-------------|-------------|--|
| Performance Management | 1 | 1 | | | | | | | | Rob Smyth |
| Regeneration | 6 | 6 | | | | | | | | Chris Taylor |
| Licensing | 4 | 1 | 1 | | | Dec 2015/ Mar 2016 | | | 2 | Ross Hill |
| Parking | 3 | 1 | | | | Jan/Mar /Apr 2016 | | | 2 | Nick Brown/ Steve Barnes |
| Right to Buy | 5 | 1 | | | | Dec 2015 Jan/Mar 2016 | | | 4 | Richard Baker/ Andy Vincent/ Chris Baker |
| PCI-DSS | 4 | 1 | 1 | | | Dec 2015 Jan/Mar 2016 | | | 2 | John Worts |
| Housing Repairs | 4 | | | | | Jan – Apr 2016 | | | 4 | Fiona Williamson |
| Council Tax | 1 | | | | | | | | 1 | Chris Baker |
| Total | 28 | 11 | 2 | | | | | | 15 | |

2014/15 Recommendations

Three recommendations from 2014/15 remain partly implemented

Customer Services

Recommendation: Comprehensive failure demand data should be analysed to identify where Council resources are best focused to resolve problems.

Management Update: We are currently in negotiation with Northgate in relation to the wider roll out of the CRM provision across the Council. Once the CRM has been fully implemented and the benefits of the Digital Dacorum projects are fully realised it is envisaged that this will reduce the number of failure demands and will make it much easier to understand the root causes and rectify them. We agree that this recommendation is still partially implemented until the wider CRM provision is in place.

Trees and Woodlands

Recommendation: Consideration should be given to the viability of a direct electronic link between the EzyTreev and Agresso system to allow for direct data transfer.

Recommendation: In the absence of a direct interface a monthly reconciliation between the EzyTreev system and Agresso should take place. This should be signed and dated by the officer who carried out the reconciliation and verified by an independent officer.

Management Update: Group Manager (Environmental Services) confirmed that these recommendations are not yet implemented.

Appendix 4 - 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 2016

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Dacorum Borough Council

Draft Internal Audit Operational Plan 2016/17

February 2016

This report has been prepared on the basis of the limitations set out on page 5.

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1. Background

This document sets out the draft Internal Audit operational plan for Dacorum Borough Council for discussion and approval by the Audit Committee. The purpose of this plan is to identify the work required to achieve a reasonable level of assurance to be provided by Internal Audit in compliance with the Code of Practice for Internal Audit.

The fundamental role of Internal Audit is to provide senior management and the Audit Committee 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 in accordance with an annual operational plan as approved by the Audit Committee.

2. 2016/17 Audit Planning

As part of the audit planning, for 2016/17 we have prepared a proposed plan of internal audit work for the period 1 April 2016 to 31 March 2017.

The Internal Audit Plan 2016/17 was developed based on:

- Discussions with key members of management;
- Review of the risks and priorities contained in DBC's strategic and operational risk registers;
- Review of DBC's key objectives, plans and frameworks;
- Reference to previous audit and assurance work and the progress towards implementing recommendations; and
- Discussions with our external audit colleagues in respect of the content of the plan.

The Internal Audit Plan 2016/17 detailed in Appendix A particularly seeks to:

- Address areas of specific concern identified by management; and
- Provide independent assurance where high reliance is placed by management on first and second layers of defence.

The Internal Audit Plan will remain flexible during the current financial year to adapt, as required, to the changing needs of DBC. Any proposed changes to the Internal Audit Plan, in year, will be presented to the Audit Committee for approval. Appendix A contains the proposed timings of the audits for 2016/17.

Internal Audit Plan 2016/17

Appendix A

| Assurance Requirement | Area | Scope | Risk no. | Risk Category | Planned Days 2016/17 | Proposed Quarter 2016/17 |
|-------------------------------------|--|---|-------------|-------------------------------|----------------------|--------------------------|
| 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 2016/17, any controls where there is perceived to be a weakness, and a judgmental sample of other controls in operation across the four areas. | F7 | Operational | 15 | Q3 |
| | Treasury Management, Cash & Bank | | | | | |
| | Accounts Receivable | | | | | |
| | Accounts Payable | | | | | |
| | Budgetary Control | To cover strategic approach to co-ordinating budgetary control, monitoring and reporting, and also testing a sample of departments. | F7, FR_F03 | Operational | 7 | Q4 |
| | Council Tax | Covering adequacy and effectiveness of controls including liabilities, billing, cash collection, recovery and accounting. CRSA to be applied. | FR_R01 | Operational | 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. | FR_R01 | Operational / Business Change | 6 | Q4 |
| | Housing Benefit & 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. | FR_R02 | Operational / Business Change | 8 | Q4 |
| Payroll and Pensions Administration | Covering adequacy and effectiveness of controls over starters, leavers, amendments, etc. | C6 | Operational | 8 | Q3 | |
| Core Financial Systems Total | | | | | 52 | |

| Assurance Requirement | Area | Scope | Risk no. | Risk Category | Planned Days 2016/17 | Proposed Quarter 2016/17 |
|--------------------------------|-------------------------------------|--|------------------------|-------------------------------|----------------------|--------------------------|
| Operational Risks | Homelessness | Covering adequacy and effectiveness of controls over homelessness, including the approach to developing the Homelessness Prevention Strategy | HL_F02 | Operational | 10 | Q2 |
| | Contract Management | Covering adequacy and effectiveness of the Council's corporate approach to contract management. | ND_F01, HL_F03, CE_R08 | Operational | 10 | Q2 |
| | Housing Rents | Covering adequacy and effectiveness of controls over the management of housing rents and service charges, including collection of rent arrears. | F6 | Operational | 10 | Q1 |
| | Human Resources | Covering adequacy and effectiveness of key controls over recruitment, workforce planning, sickness absence and training | C5,C6, ND_I03 | Operational | 10 | Q4 |
| Operational Risks Total | | | | | 40 | |
| Assurance Requirement | Area | Scope | Risk no. | Risk Category | Planned Days 2016/17 | Proposed Quarter 2016/17 |
| Strategic Risks | Community Infrastructure Levy | Covering adequacy and effectiveness of controls over the introduction of the levy, including its collection and accounting processes. | I3 | External / Emerging | 15 | Q1 |
| | Programme/Project Management | Programme/Project management assurance in respect of Digital Dacorum. A sample of projects in the programme will be selected. | PP_R011 | Business Change | 15 | Q3 |
| | Commercial Asset Management | Assurance over the design and application of controls relating to areas such as asset management strategy, void management and performance management. | FR_I02 | Operational | 14 | Q1 |
| Strategic Risks Total | | | | | 44 | |
| Assurance Requirement | Area | Scope | Risk no. | Risk Category | Planned Days 2016/17 | Proposed Quarter 2016/17 |
| ICT | ICT Security/Information Governance | The specific scope will be agreed with management | C7 | Operational | | Q2 |
| | Cloud Computing/Social Media | The specific scope will be agreed with management | C7, R5 | Operational / Business Change | | Q3 |
| ICT Total | | | | | 30 | |

| | | | | | | |
|--|---|--|--------|-------------|---------------|----------|
| Governance, Fraud & Other Assurance Methods | 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. | | All | 10 | Q1-Q4 |
| | Governance and Risk Management | The use of CRSA to provide assurance that managers understand their requirements and take ownership of their responsibilities | | All | 10 | Q4 |
| | 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. | | Operational | 12 | Q1-Q4 |
| | Benefit/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. | C6, F7 | Operational | 10 | Q3 |
| Fraud & Other Assurance Methods Total | | | | | 42 | |
| Other | Follow-up of Recommendations | Follow-up of all priority 1 and 2 recommendations made in final reports issued. | | | 10 | |
| | Management (including Audit Committee Training) | | | | 25 | |
| | Ad Hoc | Contingency allocation to be utilised upon agreement of the Director (Finance & Operations). -Housing Allocations -The Forum | | | 15 10 5 | Q1 Q3 |
| Other Total | | | | | 65 | |
| Total | | | | | 273 | |

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 LLP

London

February 2016

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Agenda Item 8

AUDIT COMMITTEE: 10 February 2016 APPENDIX A

AUDIT COMMITTEE: Work Programme 2015-16

| MEETING DATE | DEADLINE TO MONITORING OFFICER | DEADLINE TO MEMBER SUPPORT | ITEMS: | WHO RESPONSIBLE |
|--------------|--------------------------------|----------------------------|---|-----------------|
| 10/02/2016 | | 1/2/2016 | Progress Report 2016/17 Draft Annual Internal Audit Plan Council Tax | Internal Audit |
| 27/4/2016 | | 18/4/2016 | Progress Report Key Financial Controls Budgetary Control NNDR Housing Benefit – Council Tax Support Data Security Health & Safety Member Training & Expenses Housing Lettings | Internal Audit |
| | | | 2014/15 Report on the Certification of Claims and Returns 2015/16 Audit Planning Report | External Audit |

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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