Audit
Agenda

Wednesday 30 November 2016 at 7.00 pm

DBC Gade Room - Civic Centre

Please note the change of time and venue

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 Barnes	Councillor Taylor (Chairman)
Councillor Brown	Councillor Tindall
Councillor Douris	Councillor W Wyatt-Lowe

Substitute Members:
Councillors Adshead, Anderson, Link and Ransley

For further information, please contact Jim Doyle (228222)

AGENDA

1.   **APOLOGIES FOR ABSENCE**

       To receive any apologies for absence

2.   **DECLARATIONS OF INTEREST**

To receive any declarations of interest

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

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

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

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

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

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

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

3.   **MINUTES AND ACTIONS**

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

4.   **PUBLIC PARTICIPATION**

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

5.   **STRATEGIC RISK REGISTER - QUARTER 2 - 2016/17** (Pages 4 - 22)

6.   **ANNUAL AUDIT LETTER - OCT 2016** (Pages 23 - 46)

To consider the Annual Audit Letter for the year ended 31 March 2016

7.   **INTERNAL AUDIT REPORTS** (Pages 47 - 88)

Internal Audit Progress Report

Internal Audit Reports

- Homelessness
- Contract Management

8.   **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 (Item 9).

9.   **INTERNAL AUDIT REPORTS**

Internal Audit Report

- Housing Maintenance Contract

AGENDA ITEM:

SUMMARY

Report for:	Audit Committee
Date of meeting:	30 November 2016
PART:	1
If Part II, reason:	

Title of report:	**Strategic Risk Register Quarter 2, 2016/17**
Contact:	Cllr Graeme Elliot , Portfolio Holder Finance & Resources James Deane , Corporate Director (Finance & Operations) Linda Dargue, Lead Officer, Insurance & Risk
Purpose of report:	To provide the Quarter 2 update on the Strategic Risk Register
Recommendations	That the content of this report is noted and that Committee seek further assurance where required.
Corporate objectives:	Dacorum Delivers – Risk management is an essential part of ensuring that the Council meets all of its objectives
Implications: 'Value For Money Implications'	<u>Financial</u> Incorporated within the report. <u>Value for Money</u> Risk management is closely linked to the Council's commitment to ensure that all resources are used efficiently and forms part of effective financial planning. The Council also needs to ensure that adequate provisions are in place to address anticipated risks but that these are no greater than necessary so that maximum resources are applied to services as required. To this end the Council sets minimum target working balances for both the general fund and HRA and at the date of this report these minimum balances are secured. Budget exercises for 2016/17 have ensured that the minimum balance requirements will also be met for the next financial year.
Risk Implications	Effective risk management is an important factor in all policymaking, planning and decision making.

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

BACKGROUND

1. The revised Strategic Risk register showing the position at the end of Q2 2016/17 is attached at Appendix A.

2. For this quarter the risk scores have remained unchanged, however the narrative has been reviewed and amended as appropriate to reflect the present position.

3. This iteration of the risk register, i.e. as at Quarter 2, will be reported to Cabinet on 30 November 2016, and will include comments, suggestions as requested by the Audit Committee.

STRATEGIC RISK REGISTER

September 2016

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

Category:	Corporate Priority:		Risk Owner:	Portfolio Holder:	Tolerance:
Legal & Regulatory	Dacorum Delivers		James Deane	Graeme Elliot	Treating

Inherent Probability	Inherent Impact	Inherent Risk Score	Residual Probability	Residual Impact	Residual Risk Score
4 Very Likely	4 Severe	16 Red	3 Likely	2 Medium	6 Amber

Consequences	Current Controls	Assurance
As a public sector organisation, there a number of regulatory frameworks which govern the way in which the Council must operate both on a day-to-day basis and in the discharging of one-off duties or actions. Generally, compliance with these frameworks is considered an operational risk and is monitored and managed through a combination of the Operational Risk Register and Performance Indicators which are reported to the relevant Overview and Scrutiny Committees. However, there is a risk that in some circumstances failure to comply with regulations could result in a number of consequences for the Council that are sufficiently negative and high profile in nature to become, for a short time, strategic in nature. For example, failure to follow the correct protocols prescribed under the data protection legislation could result in the following consequences for the Council:	The Council has a number of strategies and policies in place which aim to provide clarity in the way Council Members and staff should operate. These documents are reviewed and updated periodically by Officers who are experts in the field and are frequently the subject of Internal Audit reviews in order to provide Members with independent, third-party assurance. These processes mitigate the likelihood of this risk crystallising and have resulted in my reducing the inherent risk score from '4', Very Likely, to '2', Unlikely. Data Protection policy & procedures Health & Safety policy & procedures Risk Management framework Safeguarding policy & procedures Financial Regulations Procurement Standing Orders Constitution	The Financial Regulations (Main Accounting) and Emergency Plan were audited by Mazars, the Council's Internal Auditors in 2014/15 and achieved a FULL level of assurance. The Risk Management framework and Procurement Standing Orders were audited in 2014/15 and achieved a SUBSTANTIAL level of assurance. Data Protection, Health and Safety, the Constitution (Corporate Governance) and the Financial Regulations (Main Accounting) are in the Internal Audit plan for review in 2015/16.

| 1. Disclosure of personal information causing harm to a resident
2. High profile negative publicity regarding the way the Council operates
3. Significant financial penalty imposed by the Information Commissioner

This risk has been included on the Strategic Risk Register to ensure that there is scope to escalate an operational risk for Cabinet consideration and Audit Committee scrutiny should there be a period of intensified risk in a specific regulatory area. | Emergency Plan
Human Resources terms & conditions | |

Sign Off and Comments

Sign Off Complete

The Health and Safety Executive's investigation into the Council's management of exposure to Hand Arm Vibration at Cupid Green remains ongoing. However, there are no material developments on which to update Members or to warrant changing the current risk score.

A meeting has been scheduled for relevant officers to meet with counsel in early December for them to give a view on the Council's position. Members will be updated once further information becomes available.

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

Category:	Corporate Priority:		Risk Owner:	Portfolio Holder:	Tolerance:
People/Employees	Dacorum Delivers		Sally Marshall	Neil Harden	Treating

Inherent Probability	Inherent Impact	Inherent Risk Score	Residual Probability	Residual Impact	Residual Risk Score
4 Very Likely	4 Severe	16 Red	2 Unlikely	4 Severe	8 Amber

STRATEGIC RISK REGISTER

September 2016

Consequences	Current Controls	Assurance
• The quality of service delivery is likely to be adversely affected due to a lack of resources and/or skills to effectively deliver services through increased partnership working. • There is likely to be a reduction in efficiency savings due to inability to create more effective partnerships. • There is also likely to be a negative impact on any proposals for devolved powers. • A failure to create more examples of effective partnership working will result in a higher likelihood of back office and front line services being reduced as the financial constraints on the Council's budget continue to tighten.	- Leading in Dacorum continues to be delivered (all courses stated in risk register) - People strategy to be implemented autumn 2016 which will cover issues including graduate scheme, apprenticeship scheme, succession planning, reviewing T&Cs etc. - Continuation of sharing services with other LAs, with policy development and transactional/operational Hr activities - The new approach for service planning for 2016/2017 focusses heavily on service innovation, service efficiencies and workforce planning. - All leadership appointments are subject to behaviour tests which will assist with assessing their understanding and approach to partnership working. This control will reduce the risk as it will ensure that candidates who are appointed to leadership positions within the Council will have demonstrated that they display a positive approach to partnership working.	• Across 2015/16 the Council had a voluntary annual turnover rate of 10.6% (76 staff). This compares positively to the public sector average (18%) and it is below the level within local government (11.9%). It is also lower than average for district councils (11%). • Opportunities for collaboration and shared services are being actively considered across Hertfordshire in relation to Legal, HR, Information Management, Insurance and Payroll Services. • Recruitment for leadership posts is generally competitive with a good number of applications being received from suitably qualified candidates for vacant posts.
Sign Off and Comments		
Sign Off Complete		

Page 8

18/11/2016 04:18PM

Page 3 of 17

STRATEGIC RISK REGISTER

September 2016

Recruitment and Retention:

We have a well-established process for recruiting staff which includes be-spoke training for managers, job adverts in modern media and up-to-date recruitment policies. We also continue to make use of behaviour based assessments as part of the recruitment process to ensure that staff joining the organisation have the right values as well as having the right skills and experience. We are also in the process of appointing a new specialist recruitment agency.

Nevertheless we recognise that some roles continue to be difficult to fill, which in turn is leading to agency overspend and budgetary cost pressures. This includes building control, planning and environmental health. Therefore, as part of our new People Strategy, we have commissioned a review (by our Innovation and Improvement Team) to look at additional ways to make us more attractive. It is also important that we continue to work closely with other local authorities to consider how we can jointly address national recruitment problems.

Development and Training:

Our dedicated management training programme (Leading in Dacorum) continues to be delivered and our service planning model focuses on service innovation, service efficiencies and workforce planning. We have also recently appointed a new HR & OD Officer who will be driving our OD plan through our people strategy.

Conclusion and Next Steps:

Given the controls in place, it is not necessary to change the risk rating.

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

Category:	Corporate Priority:		Risk Owner:	Portfolio Holder:	Tolerance:
Corporate	Dacorum Delivers		Sally Marshall	Neil Harden	Treating

Inherent Probability	Inherent Impact	Inherent Risk Score	Residual Probability	Residual Impact	Residual Risk Score
3 Likely	4 Severe	12 Red	2 Unlikely	3 High	6 Amber

Consequences	Current Controls	Assurance
Cause of Risk - The Council is reliant on vast amounts of	Information Security Officer appointed responsibilities	- Information Security Officer appointed

good quality data and information to determine sound decisions and plans, conduct operations and deliver services.

It is also required by the Data Protection Act and Government's Public Sector Network (PSN) Code of Connection (CoCo) to maintain confidentiality, integrity, availability and appropriately authorised use of the data.

With the Government's 'Open' agenda, increased flexible working patterns of staff, and increased partnership working and use of multiple information storage sources, controls on data management and security have become complex and important.

Consequences of Risk –
1. Poor decision making due to ineffective use of or insufficient availability of data and information sharing.
2. Loss, misrepresentation or unauthorised disclosure of sensitive data, DBC has the potential to be susceptible to cyber-attacks or sabotage.
3. Under performance. Breach of Data Protection Act leading to legal actions, fines, adverse publicity, and additional remedial and data protection costs.
4. Significant interruption of vital services leading to failure to meet duties and to protect people, finances and assets.
5. Potential damage to DBC's reputation.

include:
• the Council's Corporate Information Assurance specialist
• the custodian, owner and updater of ICT Security and Information Governance strategy, policy and procedure ensuring that the Council complies with the latest legislation in terms of ICT Security standards and compliance.
• To ensure that the Council's policies and procedures regarding ICT Security and Information governance are adhered to across all the Council's services.
• To keep informed of relevant technical innovation and changes to technological, infrastructure, telecom and software systems in relation to Information Security.
• To be the custodian and owner of Information Security and Governance Standards.
• To manage Information Security and Governance strategies and to support the Council in the future development of Information Security, Governance and Business Continuity.
• To train Council Staff, Members on Information Security, Data Protection Act and Freedom of Information Acts.
Compulsory training for staff on Data Security
- PSN Compliance
- Audit of data protection approach

- Various ICT policies and procedures in place
- Compulsory training for staff on Data Security
- PSN Compliance

Sign Off and Comments

Page10

STRATEGIC RISK REGISTER

September 2016

As an organisation we have in place a number of technical and procedural controls to ensure that we effectively manage our data protection responsibilities (and risks).

We are currently undergoing our annual PSN compliance assessment, which will ensure that our processes and network & security controls meet the Cabinet Office's exacting requirements. The controls we have in place include anti-virus software, corporate firewalls, various authentication processes and end point security solutions. These controls are reviewed regularly and opportunities taken to extend them, for example through the planned introduction of a new remote working solution which will require all remote web browsing on Council laptops to happen through DBC's network. We also have a robust procedure for the disposal of equipment, which ensures that we receive certifiable assurance that any data is removed.

We continue to run quarterly training courses on the Data Protection Act, Information Security Management and the Freedom of Information Act, and our guidance requires staff to attend a refresher course at least once every four years. Staff are also required to review, understand and sign a number of policies including Data Protection Policy, Corporate Information Technology Security Policy and Home and Remote working policy. All suppliers working with our data are also required to complete an 'accreditation form' which assures us that they have robust data protection policies and security controls in place.

As we move to the Forum we also recognise the increased data protection risks and we have put in place a series of detailed processes and checks to ensure that any physical data is properly removed.

Given the range of measures and controls we do not consider it necessary to change the ratings for this strategic risk.

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

Category:	Corporate Priority:		Risk Owner:	Portfolio Holder:	Tolerance:
Financial	Affordable Housing		Mark Gaynor	Margaret Patricia Griffiths	Treating

Inherent Probability	Inherent Impact	Inherent Risk Score	Residual Probability	Residual Impact	Residual Risk Score
4 Very Likely	4 Severe	16 Red	4 Very Likely	3 High	12 Red

Consequences	Current Controls	Assurance
Since the 'once and for all' settlement with government	Elements of the changes are yet to apply (the rent	A remodelling of the HRA Business Plan has been made

on the self financing of the HRA there have been major legislative and policy changes which, overall, have impacted detrimentally on the HRA Business Plan:
• The re-invigoration of the RTB which has increased sales from around 15-20 per year to well over 100
• The parallel introduction of the RTB 'one for one' replacement scheme where the Council can use receipts to build new homes but only to pay for 30% of costs (leaving the other 70% to be sourced)
• A change to national rent policy which moved from RPI + 0.5% to CPI + 1% and ending the process of reaching target rents (leaving 60% of DBC properties below target)
The government now propose two further changes which, if enacted, will further constrain the capacity of the HRA Business Plan viability:
• A rent reduction of 1% per year for four years and a complete inability to make any progress towards convergence to target rents (a reduction of income of £30M over the first four years and over £500M over the lifetime of the HRA Business Plan)
• Enforced sales of 'high value' council homes as they become vacant to fund Housing Association RTB
The first of these changes is already in draft legislation and the assumption must be that it will happen. The consequences are very significant, and even with mitigation will continue to be so:
 The financial viability of the HRA to meet its current business plan objectives in full cannot be made due to loss of income and economies of scale as stock numbers

changes start from April 2016) and the current controls – proper business planning, the disciplines of the MTFS, project and programme management arrangements, effective contract management, annual efficiency programmes and so on – reflect on the existing position and could provide sufficient mitigation to the long term business plan. The controls proposed for the new changes – if the proposed legislation is enacted – will only mitigate the impact to an extent as the scale of change, compounded with previous changes, are so significant. The controls are as follows:
A complete review of the HRA Business Plan to spread the impacts over activities and over time. Initially, in order to deliver the current new build programme, this will be focused on a slowing down of the investment into current stock.
Reducing the costs of running the service through efficiency and service redesign (in partnership with tenants and leaseholders).
Improved procurement of services and renegotiation of existing contracts (though these have been procured within the last year or so and will restrict potential). This would include seeking shared services with other partners and models of operation which reduce the overheads of the HRA.
Maximising the income to the HRA by altering use of parts of the stock (increased use of HRA stock for temporary accommodation and provision of low level care as part of a tenancy where rent controls do not apply).

to take account of the impact of the changes which will be considered by Cabinet (initially in November 2015 and periodically thereafter). This has demonstrated that the current new build programme can be completed. The ability to extend this further will depend on the success of the mitigations above.

diminish.
Services to tenants will have to reduce, including proposed investment in the existing stock, to deal with the scale of resource reduction.
The new build programme at its proposed scale will have to reduce, and possibly cease, in order to provide services to tenants and balance the books.
That resources provided through RTB one for one replacement will be unused and lost to the Borough as it is returned to the Treasury as a result of the Council's inability to provide the 70% match funding and as Housing Associations reduce their supply of new affordable homes (as a result of the same legislative changes impacting on the Council).
The Council's housing stock will progressively reduce through RTB, enforced sales and reduction in new build which will reduce its ability to meet the housing needs in the Borough and achieving the strategic objective of increasing the supply of affordable homes.

Altering the tenure mix of the current new build programme to include shared ownership and market sale in order to cross subsidise new rented provision. This could incorporate an element of affordable rent to increase revenue.
Development of a partnership approach to use of RTB one for one replacement funding with local Housing Associations in order to minimise losses of resource to the Borough and to increase supply of new homes.
Fully exploring the potential of a Local Housing Company to improve the cost of delivery of new homes alongside the benefits to the General Fund.
Lobbying of government regarding the disproportionately severe impacts of the changes, though historical reasons, on DBC seeking some local amelioration.
Ensuring that our intelligence on the changing position and on developments within the sector are fully up to date through membership of ARCH, liaison with CIH and other key bodies.
The following controls are in place already with regard to the financial and strategic management of the HRA Business Plan:
• An annual refresh of the HRA Business Plan reported both to CMT and to Cabinet
• Monthly meeting between budget holders and accountants monitoring progress against original timeframes and costs
• Regular meetings of the Corporate New Build Group considering performance and new schemes

	• CMT receive a fortnightly update on the new build programme • Performance Board comprising Chief Officers and cabinet members receive a report on progress before each cabinet meeting • Reports on HRA performance go the Overview and Scrutiny every quarter • The HRA is reported as part of the overall corporate financial reporting process	

Sign Off and Comments
Sign Off Complete Further work on the potential of the de-pooling of service charges is underway and will be considered in the budget process for 2017/18

F7 - Funding and income is not sufficient to deliver the Council's corporate objectives

Category:	Corporate Priority:		Risk Owner:	Portfolio Holder:	Tolerance:
Financial	Dacorum Delivers		James Deane	Graeme Elliot	Treating

Inherent Probability	Inherent Impact	Inherent Risk Score	Residual Probability	Residual Impact	Residual Risk Score
4 Very Likely	4 Severe	16 Red	3 Likely	3 High	9 Amber

Consequences	Current Controls	Assurance
The government's austerity programme has led to reduced Local Authority funding over the last five years, resulting in the Council's need to find savings of £5m since 2010/11. Further funding reductions in excess of £3m are forecast over the next four years, which increase the risk of the Council being unable to deliver its vision for the borough, as detailed in the Corporate	The Council's Medium Term Financial Strategy and the HRA Business Plan are controls that mitigate the likelihood of this risk crystallising through the effective modelling of the future financial environment, which allows for more effective forward planning. These controls are detailed below, and have resulted in my reducing the inherent risk score from '4', Very Likely, to	There were three internal audit reviews undertaken by Mazars during 2014/15, which provide an external view of the effectiveness of the controls implemented by the Council to manage the financial risks to delivering its priorities. The audits on 'Efficiency Savings' and 'Main Accounting'

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

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

If the Council is unable to deliver its vision or to protect its frontline service provision, it risks the following consequences:
Increased community hardship as the services provided to the most vulnerable residents in the borough are impacted, leading to delays in their accessing financial and residential help.

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

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

'3', 'Likely'.

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

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

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

The Council's reviewing of its Corporate Plan together with its Communications Strategy mitigate the impact of this risk, should it occur, by keeping residents informed of the pressures faced by the Council, and consequently by managing aspiration and expectation (detail below).

received a Full level of assurance (the highest available), and the audit on 'Budgetary Control' received a Substantial level of assurance (the second highest available).

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

On this basis, I have reduced the Impact score from '4', Severe, to '3', 'High.

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

Sign Off and Comments

Sign Off Complete

Since the last update of the Strategic Risk Register at the end of Quarter 1, there have been no formal updates to the MTFS position reported to Cabinet in July 2017.

However, in early November confirmation was received from DCLG that the Council has been granted the four-year funding settlement for which it applied. Whilst this does not increase the funding available to the Council in the medium-term, it does mean that the funding assumptions within the MTFS have now been confirmed as correct as far as they can be (the funding settlement, even though agreed by Government until 20/21, could be subject to further change by Government, if necessary).

Work has continued on balancing the budget for 2017/18, and the first draft will be reported to Members for consideration at the Joint Scrutiny Committee meeting scheduled for 6 December.

I3 - The Borough does not secure sufficient investment in infrastructure to ensure that housing delivery and economic and community growth is sustainable in the longer term.

Category:	Corporate Priority:		Risk Owner:	Portfolio Holder:	Tolerance:
Infrastructure	Affordable Housing		Mark Gaynor	Graham Sutton	Treating

Inherent Probability	Inherent Impact	Inherent Risk Score	Residual Probability	Residual Impact	Residual Risk Score

Page 16

STRATEGIC RISK REGISTER

September 2016

4	4	16	3	3	9
Very Likely	Severe	**Red**	Likely	High	Amber

Consequences	Current Controls	Assurance
The provision of infrastructure such as schools, health, transport and other facilities is crucial to sustainability of the local community and economy. Its funding, however, is increasingly complex and difficult as central government moves away from direct provision and expects the development process and local partnerships to deliver it. Failure to provide this infrastructure will have a number of damaging consequences: A reduction in the quality of life and opportunities for people in the Borough A serious constraint to economic growth with the impact on the contribution to service provision through Business Rates growth Increased community opposition to new developments, particularly housing, on the grounds that existing infrastructure will not cope Damage to the image of the area, worsening of community pride and social cohesion and reputational damage to the Council	Infrastructure is provided through the development process (s106 and Community Infrastructure Levy) and elements of funding which comes from central government (increasingly through the LEP, bidding and HCC). The responsibility for some infrastructure elements is through privatised arrangements (utilities) or arms-length government agencies such as Network Rail. The ability of the Council to control these processes is limited. The Council is able to promote the quantum, nature and timing of growth making it more likely that the infrastructure will be delivered. It is also able to promote partnerships and use its asset base and influence to stimulate desired development. Current controls include: Ensuring that the Local Plan (and its component elements such as the Core Strategy, site allocations, supporting policies and so on on) is up to date and sets out very clearly the requirements of proposed development. This promotes sustainable development by design, access and movement, materials. Use of masterplanning supports what is required to be delivered to produce sustainability on larger sites. The approved Council's Community Infrastructure Levy Policy and schedule (CIL) provides for the levels of contributions that must be made by developers and the purpose for which they will be spent. This also includes	The process for setting out development delivered is through the Annual Monitoring Report. The agreed process for CIL will see an annual report setting out income due, achieved and expenditure made on agreed infrastructure. Regular reports are made as set out above in controls.

Page 17

Page 18

an element of CIL which can be spent by local communities and act to link growth directly with infrastructure provision local people want.

Operating a 'open for business' approach to how the Council deals with potential development with a presumption of making acceptable development easier to deliver by proactive advice through the planning process. Allied to this is ensuring that the development management service is capable of achieving decision making within required time limits.

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

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

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

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

Working to create key partnerships to bring forward development capable of funding major infrastructure

(such as Gorhambury)
These controls are exercised within the following:
• Monthly reporting to Hemel Evolution Board and Corporate Regeneration Group
• Fortnightly reporting on key projects to CMT
• Reporting to Performance Board before each Cabinet Meeting
• A clear programme for the Local Development Framework and CIL
• Quarterly reporting to Overview and Scrutiny
• Regular reporting to Cabinet
• Adherence to the agreed performance and project management processes

Page 19

Sign Off and Comments

Sign Off Complete

Mo major changes to report.

R5 - The Council does not embrace the increased use of social media as a tool for social engagement and increased community engagement.

Category:	Corporate Priority:		Risk Owner:	Portfolio Holder:	Tolerance:
Reputational	Dacorum Delivers		Sally Marshall	Neil Harden	Treating

Inherent Probability	Inherent Impact	Inherent Risk Score	Residual Probability	Residual Impact	Residual Risk Score
3 Likely	3 High	9 Amber	2 Unlikely	3 High	6 Amber

Consequences	Current Controls	Assurance
The risk of not using social media - This will mean that our approach to engagement (i.e.	In order to mitigate these risks we have put in place a number of controls:	o Corporate Information Security Management Policy o Corporate Information Technology Security Policy o Data Protection Act Policy

letters, workshops, printed magazines) is likely to exclude key demographic groups including younger residents and those who are more technologically minded.

- We will not be able to respond to negative posts or views which could cause significant reputational damage or risk.

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

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

Managing the risk of social media

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

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

- Inappropriate or unacceptable content posted by employees

The risk of not using social media

- Our social media strategy sets out how we will proactively engage with residents through Twitter, Facebook, Linked In, Instagram and using online videos.

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

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

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

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

Managing the risk of social media

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

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

- Our system provides automatic moderation of abusive messages.

o Freedom of Information Policy
o PSN/Government Connect (GSx) Acceptable Usage Policy
o Information Security Incident Procedure
o Social Media Strategy
o Facebook and Twitter accounts
o Social Media Management System

Page 20

- Our social media accounts are 'identity jacked' which occurs when fake accounts are set up to look like those of DBC. This is a risk because the fake accounts can post incorrect or inappropriate information which is then associated with DBC. - Weak authentication in the use of social media accounts can lead to them being hacked. The hacked accounts are then used to post inappropriate, derogatory or libellous comments. - The use of social media can make it easier for 'pressure groups' to generate support behind negative campaigns.	- We provide in-house training for all staff posting on DBC social media accounts. - We use a subscription service that manages and secures accounts. - All staff are required to read and sign-up to a range of policies including: Corporate Information Security Management Policy Corporate Information Technology Security Policy Data Protection Act Policy Freedom of Information Policy PSN/Government Connect (GSx) Acceptable Usage Policy Information Security Incident Procedure	

Page 21

Sign Off and Comments
Sign Off Complete

September 2016

In the last quarter we have continued to deliver a strong social media presence. We posted over 1,460 outbound messages, received over 319 direct messages which were responded to in accordance with our social media policy and guidance, and had a total twitter reach of 3.06 million viewers across our 18 social media accounts and networks. Some of the campaigns we have run include Community Champion Awards 2016, Hemel Evolution (Water Gardens), London Road Apsley, (36 new Council homes) and communication campaigns including the Olympics (Max Whitlock and Jessica Stretton), e-newsletter (Digital Digest) and Tring Memorial Gardens entry award for Green Flag People's Choice Award.

In terms of management and security, we have continued to manage our social media profile through a range of measures including the enforcement and implementation of our social media and ICT policies and our dedicated social media management system (Crowd Control) which is the leading risk management software in the UK. As far as is possible (and accepting freedoms of speech and communications) we manage the risk of negative social media responses through our social media management system and by having a monitoring system in place which ensures we always have staff available to respond to any issues. We have also agreed to routinely remove posts from individuals who have been restricted in the way they communicate with the Council, and all vexatious or inappropriate language is automatically deleted from our accounts as part of the risk management software.

Social media is an important tool to communicate and engage. However it also has challenges and risks and it's important that we continue to manage that as much as is possible. Given the controls we have in place, we do not consider that any changes need to be made to the risk or the likelihood of it occurring.

Page 22

Dacorum Borough Council

Annual Audit Letter for the year ended 31 March 2016

OCTOBER 2016

Ernst & Young LLP

EY
Building a better
working world

Contents

Page 24

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.psaa.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 Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. 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.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Dacorum Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 27th July 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 21st October 2016.

In January 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Andrew Brittain

Executive Director
For and on behalf of Ernst & Young LLP

Purpose

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 27th July 2016 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 10th February 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

► Expressing an opinion:

  ► On the 2015/16 financial statements; and

  ► On the consistency of other information published with the financial statements.

► Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.

► Reporting by exception:

  ► If the annual governance statement is misleading or not consistent with our understanding of the Council;

  ► Any significant matters that are in the public interest;

  ► Any written recommendations to the Council, which should be copied to the Secretary of State; and

  ► If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27th July 2016.

Our detailed findings were reported to the July 2016 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Management override of controls	
A risk present on all audits is that 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 selected a number of journals to review based on our risk assessment. We have agreed these to other areas of our audit work or other supporting evidence. We have no concerns to raise.
	Our review of estimates has not identified evidence of management bias.
Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.	We have not identified any unusual business transactions.
Revenue and expenditure recognition	
Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.	We have tested revenue recognition and cut off as part of income and expenditure testing and have not identified any issues with classification or recognition of income or expenditure.
We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at	We have reviewed capital expenditure on property plant and equipment and found no

the year-end.

For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

issues with the classification as capital expenditure.

Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition.

Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position.

Property asset valuation and accounting

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.

From 2015/16, the Code of Practice on Local Authority Accounting in the United Kingdom adopted IFRS 13 for assets and liabilities included in the financial statements that either permit or require measurement at fair value.

The 2014/15 balance showed a balance of £46 million for Investment Property, and therefore this change in approach will impact on material disclosures in the financial statements.

We reviewed the information provided by the authority to the valuer and the valuations provided by the valuer to ensure that they have been correctly reflected in the financial statements, and that the valuations has been made on appropriate basis. We also reviewed the valuer's competency and objectivity. There were no issues arising as a result of our work on property valuation and accounting.

Value for Money

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. This is known as our value for money conclusion.

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.
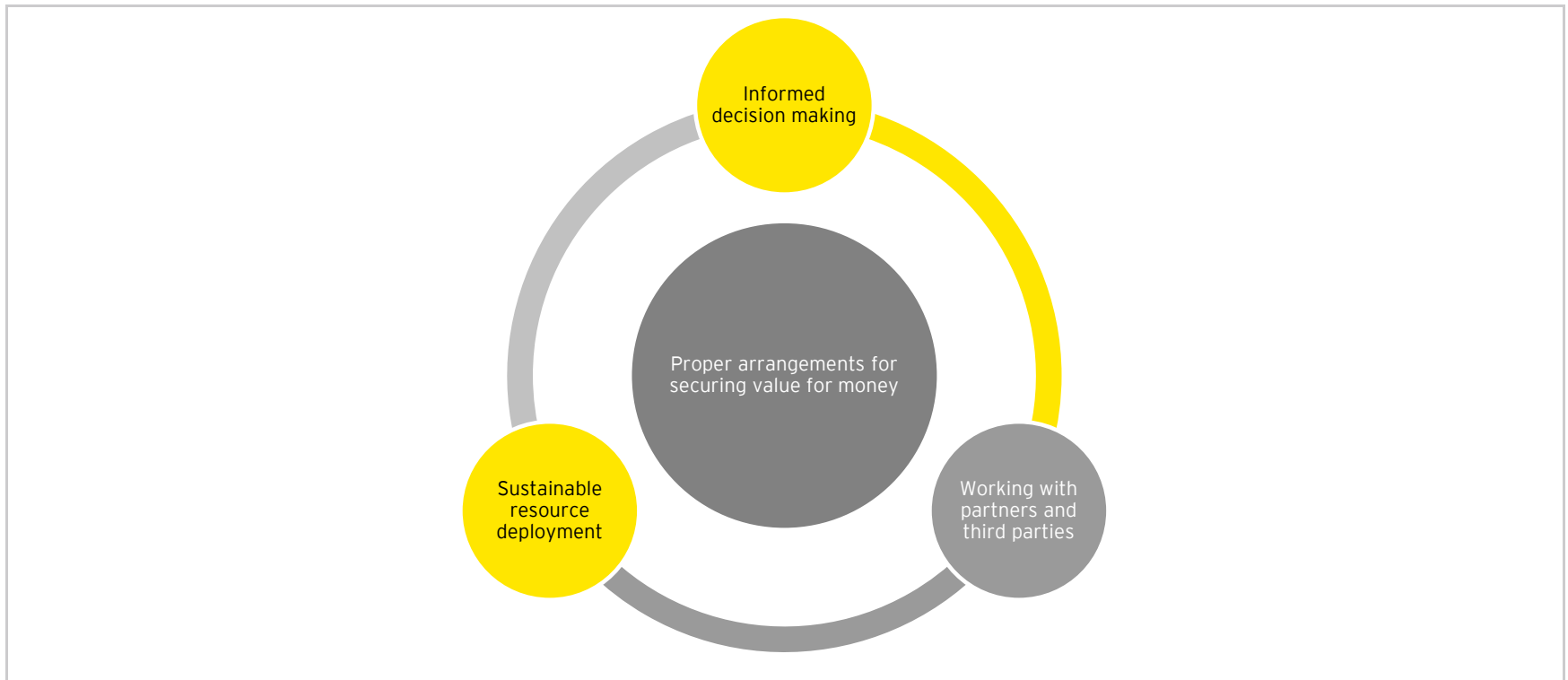
We issued an unqualified value for money conclusion on 27th July 2016.

Our audit did not identify any significant matters in relation to the Council's arrangements.

The key issues identified as part of our audit planning, and their conclusion from our subsequent work were as follows:

Significant Risk	Conclusion
Deploying resources in a sustainable manner 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.	We reviewed the Council's 2016/17 budget and the medium term financial strategy (MTFS), assessing the robustness of the savings plans in place. This took into account the Council's historic record. In 2015/16 the Council continued its track record of achieving its annual budget, delivering a surplus of £152k, including approximately £1.7m of savings and additional income. The general fund balance now stands at £2.5m as at 31 March 2016. The 2016/17 budget includes a £1.4m savings target. Although it was still relatively early in the financial year, we assessed this as reasonable taking into account the Council's track record of delivering savings over the recent financial periods. While incrementally savings can become harder to achieve over time, the Council's performance in delivering its plans gives confidence that it can continue to do so. We also reviewed the key assumptions in the budget and MTFS, which adequately took into account the economic environment at that time for business rate projections, and the forecast for reduced central government funding and the potential four-year settlement. The cumulative budget gap, taking into account the 2015/16 outturn, is now forecast at £2.8m to 2019/20. However savings plans with a value of £2.3m have been identified prior to the year-end by officers to cover this gap for 2016/17 and further proposals identified for future years. These plans have now been approved by members and they are currently being consulted on with residents. Therefore, based on the known information as at the end of the financial year, we assess the Council to have adequate arrangements.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 27th July 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Page 41

Focused on your future

Focused on your future

Area	Issue	Impact
Earlier deadline for production and audit of the financial statements from 2017/18	The Accounts and Audit Regulations Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017/18 financial year the timetable for the preparation and approval of accounts will be brought forward. As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July in 2018.	These changes provide challenges for both the preparers and the auditors of the financial statements. The Council is aware of this challenge and is well prepared given performance in previous years, but the need remains to plan for the impact of these changes. This will include the need to review the current processes for the production of the accounts and the associated supporting working papers, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year-end closure processes.
Appointment of auditors	The current audit contracts expire on the completion of the 2017/18 audit. The expiry of contracts also marks the end of the current mandatory regime for auditor appointments. After this, the Council can exercise choice about whether it decides to opt in to the authorised national scheme, or whether to make other arrangements to appoint its own auditors. In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments limited (PSAA) as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. PSAA will be able to appoint an auditor to relevant authorities that choose to opt into its national collective scheme.	Appointment of auditors for the 2018/19 financial year is required by 31 December 2017. The council should consider whether they intend to opt into the appointed person scheme to appoint your auditors from 2018/19 or if the council should make its own arrangements following the legislative requirements.

Appendix A

Audit Fees

Appendix A   Audit Fees

Our fee for 2015/16 is in line with the scale fee set by the PSAA and reported in our 27th July 2016 Annual Results Report.

Description	Final Fee 2015/16 £	Planned Fee 2015/16 £	Scale Fee 2015/16 £	Final Fee 2014/15 £
Total Audit Fee – Code work	73,350	73,350	73,350	97,800
Total Audit Fee – Certification of claims and returns*	TBC	23,036	23,036	23,391

*Our certification of the Housing Benefit claim will be completed to the 30 November 2016 deadline, and the final fee concluded at that time.

During the 15/16 year we also completed the certification of the Council's Pooling of Housing Capital Receipts 14/15 return, which is work outside of the PSAA's requirements. The fee for this was £4,050.

M MAZARS

DACORUM BOROUGH COUNCIL

INTERNAL AUDIT PROGRESS REPORT

Audit Committee – November 30 2016

CONTENTS

Introduction

This progress report to the Audit Committee covers the work carried out during the period April 1st 2016 to October 31st 2016 by Mazars Public Sector Internal Audit Limited.

Appendix 1 outlines progress to date against the 2016/17 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 2016/17 Internal Audit Plan is progressing well and audit coverage has been in line with the Plan, as shown in Appendix 1.

We have issued the following Final reports:

- Homelessness (Evaluation assurance: **Substantial**. Testing assurance: **Substantial**);

- Contract Management (Evaluation assurance: **Full**. Testing assurance: **Substantial)**;

- Housing Maintenance Contract (Evaluation assurance: **Limited**. Testing assurance: **Limited)**

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

- Customer Relationship Management (CRM)

Follow-up of Recommendations

2015/16 and 2016/17

The table below details the recommendations raised in the audit reports for 2015/16 and 2016/17. The summary of the outcome of our follow up work to the 31st October 2016 is shown in the table below:

Year	Total Recommendations	Implemented / no longer relevant	%	Implemented / partly implemented / no longer relevant	%
2015/16	53	50	96%	52	98%
2016/17	16	-	-	-	-
Total	**69**	**50**	**72%**	**52**	**75%**

Appendix 3 provides a summary of the status of all recommendations where the proposed implementation date was before 31st October 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	F	There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial	S	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	L	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	N	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.

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 one Priority 1 recommendation in the final reports issued since the last Audit Committee meeting. This Priority 1 recommendation was raised in the Contract Management report, and was as follows:

Recommendation: Off-contract spend relating to Agency and Temporary Staff should be reviewed and analysed to ensure that Agency and Temporary Staff are appointed through the Council's approved agency where possible. Where the level of off-contract spend is high, the Council should determine whether a separate contract is required to fulfil the Council's needs and also whether a formal tender process is required.

Appendix 1 – Status of Audit Work 2016/17

	Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							Evaluation	Testing	1	2	3	
Core Financial Systems	Main Accounting	Audits previously given Full Assurance: the audit will cover the adequacy and effectiveness of the Key Controls in place across the four areas. Other controls tested will include any new controls operating for the first time in 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.	15	0.5	Q3	Scope issued						
	Treasury Management, Cash & Bank											
	Accounts Receivable											
	Accounts Payable											

Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
						Evaluation	Testing	1	2	3	
Budgetary Control	To cover strategic approach to co-ordinating budgetary control, monitoring and reporting, and also testing a sample of departments.	7		Q4							
Council Tax	Covering adequacy and effectiveness of controls including liabilities, billing, cash collection, recovery and accounting. CRSA to be applied.	8	5	Q3	Work in Progress						
NNDR	Covering adequacy and effectiveness of controls including Business Rate Retention Scheme, liabilities, billing, cash collection, recovery and accounting. CRSA to be applied.	6	3	Q3	Work in Progress						
Housing Benefit and Council Tax Support	Covering adequacy and effectiveness of controls including new claims, size criteria, benefit caps, amendments, backdated benefits, payments and reconciliations. CRSA to be applied.	10		Q4							
Payroll and Pensions Administration	Covering adequacy and effectiveness of controls over starters, leavers, amendments, auto-enrolment etc.	8	3	Q3	Work in Progress						
Core Financial Systems Total		**52**	**11.5**								

	Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							Evaluation	Testing	1	2	3	
Operational Risks	Homelessness	Covering adequacy and effectiveness of controls over homelessness, including the approach to developing the Homelessness Prevention Strategy.	10	10	Q2	Final Issued	Substantial	Substantial			3	Also raised 1 System Improvement Opportunity
	Contract Management	Covering adequacy and effectiveness of the Council's corporate approach to contract management.	10	10	Q2	Final Issued	Full	Substantial	1	1	1	Also raised 1 System Improvement Opportunity
	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		2	3	
	Human Resources	Covering adequacy and effectiveness of key controls over recruitment, workforce planning, sickness absence and training	10		Q4							
Operational Risks Total			40	30								
Strategic Risks	Community Infrastructure Levy	Covering adequacy and effectiveness of controls over the introduction of the levy, including its forecasting, collection and accounting processes.	15	15	Q1	Final Issued	Substantial	Substantial		3	3	
	Delivery of Digital Dacorum Stategy and Associated Projects and Activities	Programme/Project management assurance in respect of Digital Dacorum. A sample of projects in the programme will be selected.	15	1	Q3	Work in Progress						(previously named Programme/Project Management)

	Area	Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							Evaluation	Testing	1	2	3	
	Commercial Asset Management	Assurance over the design and application of controls relating to areas such as asset management strategy, void management and performance management.	14	14	Q1	Final Issued	**Substantial**	**Substantial**		3	2	
Strategic Risks Total			**44**	**30**								
Governance, Fraud & other Assurance Methods	Governance and Risk Management	The use of CRSA to provide assurance that managers understand their requirements and take ownership of their responsibilities.	10		All							
	Counter Fraud	Internal Audit will continue to work with the Council in the development of a fraud risk register, the provision of fraud awareness training, pro-active fraud exercises, etc.	10		All							
	Continuous Auditing/Data Mining	Data analysis scripts will be written on which both identify anomalies as well as comparing the number of anomalies occurring on a period by period basis. Suggested areas of review are Payroll and Asset Management.	12		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	0.5	Q3	Scope issued						
Governance, Fraud & other Assurance Methods			**42**	**0.5**								

Area		Scope	Plan Days	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							Evaluation	Testing	1	2	3	
ICT	ICT Security	The specific scope will be agreed with management but would look to provide assurance over policies and procedures, access controls and incident management.	15		Q3							
	Customer Relationship Management (CRM)	The audit will provide assurance over Application Management and Governance, System Security, Interface Controls and Data Flow, Data Input, Data Output, Change Control and Support Arrangements	15	14	Q1	Draft report issued						
ICT total			**30**	**14**								
Other	Follow-up of Recommendations	Follow-up of all priority 1 and 2 recommendations made in final reports issued.	10	4								
	Management (including Audit Committee Training)		25	14								
	Ad Hoc	Contingency allocation to be utilised upon agreement of the Assistant Director (Finance & Resources). -Housing Allocations -The Forum	10 10 5		 Q3 Q4							
		-Housing Maintenance	5	5	Q2	Final Report Issued	Limited	Limited		8		
Other total			**65**	**23**								
TOTAL			**273**	**109**								

Appendix 2 – Follow-up of Recommendations 2015/16 and 2016/17

A follow-up audit has been undertaken in accordance with the 2016/17 audit plan. The objective was to confirm the extent to which the recommendations made in 2015/16 and 2016/17 internal audit final reports have been implemented.

The table below provides a summary of the status of all 2015/16 recommendations where the proposed implementation date was at or before 31st October 2016.

Title	Raised	Implemented	Partly Implemented	Outstanding	No longer relevant	Original Due Date	Revised Due Date	Not yet due	Resp. Officer
Performance Management	1	1							Rob Smyth
Regeneration	6	6							Chris Taylor
Licensing	4	2			2				Ross Hill
Parking	3	3							Nick Brown/ Steve Barnes
Right to Buy	5	5							Richard Baker/ Andy Vincent/ Chris Baker
PCI-DSS	4	4							John Worts
Housing Repairs	4	4							Fiona Williamson
Council Tax	1	1							Chris Baker
NNDR	4	3				Sep 2016	Mar 2017	1	Chris Baker
Health & Safety	5	5							Chris Troy
Core Financial Systems	3	3							Richard Baker
Data Security	5	5							John Worts

Title	Raised	Implemented	Partly Implemented	Outstanding	No longer relevant	Original Due Date	Revised Due Date	Not yet due	Resp. Officer
Housing Benefit & CTS	3	3							Chris Baker
Member's Training & Expenses	5	3	2			Oct 2016			Jim Doyle
Total	**53**	**48**	**2**		**2**			**1**	

The table below provides a summary of the status of all 2016/17 recommendations raised in final reports issued as at 31st October 2016. No follow up work has yet been completed on 2016/17 recommendations as the earliest date for implementation was 31st October. Follow up status will be reported at the next meeting.

Title	Raised	Implemented	Partly Implemented	Outstanding	No longer relevant	Original Due Date	Revised Due Date	Not yet due	Resp. Officer
Housing Rents	5					31 Oct 2016		5	Andy Vincent
Commercial Asset Management	5					31 Oct 2016		5	Nick Brown
Community Infrastructure	6					31 Dec2016/ 31 Mar 2017		6	Chris Taylor
Total	**16**							**16**	

Appendix 3 - Statement of Responsibility

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

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

November 2016

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

Registered office: Tower Bridge House, St Katharine's Way, and London E1W 1DD, United Kingdom. Registered in England and Wales No 4585162.

Mazars Public Sector Internal Audit Limited is a subsidiary of Mazars LLP. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.

MAZARS

Dacorum Borough Council
Final Internal Audit Report
Homelessness

November 2016

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

CONFIDENTIAL

Distribution List:

Cynthia Hayford – Strategic Housing Team Leader (People)

Natasha Brathwaite – Group Manager (Strategic Housing)

Elliott Brooks – Assistant Director (Housing)

David Skinner – Assistant Director (Finance and Resources)

Mark Gaynor– Corporate Director (Housing & Regeneration) (Final Report only)

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

Sally Marshall – Chief Executive (Final Report only)

Key Dates:

Date of fieldwork:	August 2016
Date of draft report:	September 2016
Receipt of responses:	October 2016
Date of final report:	November 2016

Contents

MAZARS

1. Executive Summary

1.1. Background

As part of the Internal Audit Programme for 2016/17, we have undertaken an audit of the Council's systems of internal control in respect of Homelessness.

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

In summary, the scope covered the following areas: Strategy, Policies and Procedures, Early Intervention and Homelessness Prevention, Application and Assessment, Temporary Accommodation, Collection of Income, and Performance Management.

1.3. Summary Assessment

Our audit of the Council's internal controls operating over Homelessness 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. There is also 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
Substantial	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 Homelessness are shown in Section 3.

MAZARS

1.4. Key Findings

We have raised three Priority 2 recommendations and one Systems Improvement Opportunity (SIO) where we believe there is scope for improvement within the control environment. The recommendations raised have been set out below:

- Monitoring and Tracking of Application Status (Priority 2);
- Timely Upload and Retention of Key Documents to Abritas (Priority 2);
- All Non-Secure Licence Agreements should contain a contract start date (Priority 2);
- Key Applicant Letters should be stored in PDF Format on Abritas (SIO).

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

1.5. Management Response

We received the management response in a timely manner, and this has been included in the main body of the report.

1.6. Acknowledgement

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

MAZARS

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

2.2. Approach and Methodology

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

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

2.3. Areas Covered

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

Strategy, Policies and Procedures

To ensure that there is a consistent and coordinated approach to homelessness that is aligned with the corporate strategy. Comprehensive, up to date and documented policies and procedures are in place and these are communicated to staff, enabling them to act in compliance with legislative and management requirements.

Early Intervention and Homelessness Prevention

To ensure that adequate steps are taken to provide early intervention and prevent homelessness. To ensure that sources and channels of information to identify residents requiring early interventions have been secured and effective communication is maintained to facilitate successful intervention and prevention.

Application and Assessment Process

To ensure that applications are processed in accordance with the Housing Act, Homelessness Act, Localism Act, and any other relevant legislations. To ensure that applications and assessments are processed in a fair, consistent, timely and correct manner. To ensure that correct decisions are made regarding the Council's homelessness duty against applicants. To ensure that robust Reviews (appeals against the Council's decision about the application) are undertaken and the risk of successful further appeals are minimised.

Temporary Accommodation

To ensure that homeless applicants are provided with appropriate temporary accommodation in line with legislative requirements.

To ensure that the best value is achieved when choosing temporary accommodation.

Collection of Income

To ensure that a rent account is set up promptly for tenants placed in a temporary accommodation and income due to the Council is collected in a complete, accurate and timely manner.

Performance Management

To ensure that the performance of the service is monitored regularly and corrective actions are taken to address any performance issues. To ensure that the performance information is used effectively to improve the quality and efficiency of the service.

MAZARS

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
Strategy, Policies and Procedures	✔	✔	
Early Intervention and Homelessness Prevention	✔	✔	
Application and Assessment Process	≈	≈	Recommendation 1 Recommendation 2 Systems Improvement Opportunity.
Temporary Accommodation	✔	≈	Recommendation 3
Collection of Income	✔	✔	
Performance Management	✔	✔	

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

MAZARS

4. Observations and Recommendations

Recommendation 1: Monitoring and Tracking of the Application Status (Priority 2)

Recommendation	
The Council should ensure that the progress status of applications is monitored and tracked through to the applicant being notified of the decision.	

Observation

The Homelessness Act 2002 stipulates that applications should be assessed with a decision made within 33 days from the receipt of the application.

Testing of 10 applications and assessments identified that in three occasions the assessment took more than the guideline 33 days. These applications took 47, 50 and 52 days to complete. In one case where it took 50 days, although a decision was made within 32 days it took a further 18 days to confirm the decision in writing to the applicant.

Where decisions are made outside of the 33 day statutory guideline, applicants may be waiting for a homelessness decision for a prolonged period of time resulting in reputational damage to the council.

Responsibility

Group Manager (Strategic Housing)

Management response / deadline

It is correct that the CLG guideline for processing homelessness decisions is 33 days. It should be noted that this is a guideline and not a formal target. Overall Council's statistics (local and national) demonstrate that overall applications are processed well within the 33 day guideline and currently within an average of 11 days. Management is satisfied that there are robust monitoring and management of applications in place, with monthly staff one to ones and weekly case review monitoring. In addition to case review monitoring, a staff case group discussion is held to share good practice, discuss the impact of new legislation and to discuss the approach to difficult casework. All decisions are currently tracked and monitored to ensure that decisions are made in a timely manner, however there are on occasions where it is not possible to make a decision within the 33 day guideline:

- Complex casework – negotiation with landlords, waiting for essential information from statutory agencies, which can be a lengthy process due to information sharing protocols such as Police or Mortgage lender information.
- Legal support required to ensure that decision issued is robust and will withstand legal challenge – in the circumstance of complex cases, it is imperative to ensure that cases do not leave the Council open to unnecessary legal challenge, reputational damage and high legal costs.
- New information provided, which changes the original decision – officers are required to hold a mitigating circumstances interview with the applicant in the case of negative decisions. It may be that new information is provided at this stage of the application, requiring the officer to make further enquiries prior to issuing the final decision, which can cause unavoidable delays.

All decisions are reviewed by Lead Officer prior to issue, where the Lead Officer determines that further enquiries are required before issuing the final decision this may case unavoidable delays to this being issued, however to ensure that relevant policies, procedures and legislation is followed it is accepted that not all cases will be issued within the 33 day guideline.

MAZARS

Recommendation 2: Document Upload to Abritas in a timely manner (Priority 2)

Recommendation
Periodic checks should be undertaken to assess whether all key documents in relation to homelessness applications and reviews of appealed failed applications are uploaded to the Homelessness IT system, Abritas, in a timely manner of receiving / issuing the document.
The frequency and sample size for these checks should be determined by management based on the risk, management's assurance requirement and level of performance. Where this process identifies significant level of exceptions, the frequency and sample size should be increased and management should also further investigate the causes so that corrective measures can be put in place to address the issues.

Observation
Key documents in the application and review process should be uploaded to Abritas in a timely manner to ensure that information is available to support decisions made.
Seven of the 40 documents that were expected to be retained on Abritas could not be found on the system. Missing documentation included six cases of key documentation supporting the application assessments and reviews. In one further case a contract was not available on Abritas for Temporary Accommodation.
Where documents are not uploaded onto Abritas in a timely manner it may take a prolonged period of time to locate supporting documents if decisions are appealed. Where evidence is not retained on Abritas, there is also a risk that information has not been received from or sent to the applicant.

Responsibility
Group Manager (Strategic Housing)

Management response / deadline
Immediate and ongoing
Lead Officer & Strategic Housing Team Leader, currently undertake a random sample audit check of applications on the system to ensure appropriate procedures have been followed and robust advice/assistance has been given. Recommendations are provided to the relevant officer where necessary to ensure that the service is continuing to improve on the service provided to our customers.
With immediate effect, Lead Officer will when reviewing applications at case review & decision stage, check to ensure that all associated documentation is scanned to the system.
Where review requests are received the relevant Officer has been asked to ensure that documents are scanned to the system immediately rather than in batches, to prevent any unnecessary delays to documents being available. Strategic Housing Team Leader, to check as part of the review process (and secondary check) that documents are available on the system.

MAZARS

Recommendation 3: All Temporary Accommodation Contracts should contain a Start Date (Priority 2)

Recommendation
Officers submitting the Temporary Accommodation Contracts for uploading to Abritas should check that all of the required fields are completed fully including the commencement date of the Tenancy Agreement. Temporary Accommodation Officers should determine whether additional checks should be introduced in future for the cases administered by a cover officer in their absence.
Observation
Non-Secure Licence Agreements should contain a date to ensure that the Council has a legal standing and can confirm the date of a tenancy arrangement commencing should it be required at a later date.
Testing of 10 Non-Secure Licence Agreements identified that in one case there was no commencement date stated on the signed Agreement between the Council and Applicant. The Temporary Accommodation Officer explained that this agreement was processed by another officer covering while the Temporary Accommodation Officers were both on leave.
When Non-Secure Licence Agreements are not dated, the Council is in a weakened legal position which may have negative effects should further action be required on the applicant or tenancy arrangement.
Responsibility
Group Manager (Strategic Housing)
Management response / deadline
Immediate and ongoing
Lead officer will check all admissions to temporary accommodation as part of weekly welfare & support meeting and case reviews to ensure that all associated documentation has been completed appropriately. Recap training to be provided to out of hours officers, where emergency documentation is completed on behalf of Officers to ensure that documents are issued in the correct legal format.

MAZARS

Systems Improvement Opportunity: Key Documents to be stored in PDF Format

Recommendation

Where the Council processes and distributes formal letters to Applicants, these letter should be saved and retained in PDF Format to ensure the information cannot be amended and key dates are representative of the issue date.

Observation

Letters should be saved in PDF format to ensure that information within the letters is not amended/changed when subject to review.

Testing of 10 Homelessness Applications and 10 Homelessness Reviews identified that the letters distributed to the applicants are saved in Word file on Abritas. The date of creation is automatically changed to the current date as the file is opened, and the date on which the letter was issued is not saved.

Where the Council cannot be certain of the date the letter was sent to the Applicant there is an increased risk that the Council may be unable to refer to the correct date of its decision or letter in the future correspondence with the applicant.

Responsibility

Group Manager (Strategic Housing)

Management response / deadline

Immediate (PDF scanning)

The Abritas CRM enables the management team to determine who has accessed an application and made amendments to an application, confirming the date and time.

Abritas system also confirms the date a letter was generated and printed, if it subsequently amended and re-printed/saved this is detected from the system. There are around 300 letter templates built into the Abritas CRM that follows this process. The review outcome letter is one of the letters currently not on this template list.

All template letters generated and printed from Abritas are saved in PDF format as are documents that are attached.

The service are currently working with the system provider to ensure that other letters generated from Microsoft word can be added to the system administration, preventing the need for using word templates – whilst this upgrade is pending officers will be asked to ensure any Word uploads are saved as a PDF.

MAZARS

Appendix A - Reporting Definitions

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

Grading of recommendations

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

Level	Definition
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

MAZARS

Appendix B - Staff Interviewed

The following personnel were consulted:

- Natasha Brathwaite   Group Manager (Strategic Housing)

- Cynthia Hayford   Strategic Housing Team Leader (People)

- Laura Brennan   Housing Advice and Allocations Lead Officer

- Tom Snell   Housing Advice and Options Lead Officer

- Toyin Awe   Housing Advice and Options Officer

- Angela Gosling   Housing Advice and Options Officer

- Julia Kachouh   Housing Advice and Options Officer

- Lynne Hunt   Temporary Accommodation Officer

- Paul Hunt   Temporary Accommodation Officer

- James Wilson   Corporate Performance Management Lead Officer

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

MAZARS

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

Novemember 2016

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom. Registered in England and Wales No 4585162.

Mazars Public Sector Internal Audit Limited is a subsidiary of Mazars LLP. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.

MAZARS

MAZARS

Dacorum Borough Council
Final Internal Audit Report
Contract Management

November 2016

This report has been prepared on the basis of the limitations set out on page 13.

CONFIDENTIAL

Distribution List:	Key Dates:	
Ben Hosier – Group Manager (Procurement, Compliance & Commissioning)	Date of fieldwork:	July/August 2016
David Skinner – Assistant Director (Finance and Resources)	Date of draft report:	September 2016
	Receipt of responses:	November 2016
James Deane – Corporate Director (Finance and Operations) (Final Report only)	Date of final report:	November 2016
Sally Marshall – Chief Executive (Final Report only)		

Contents

M A Z A R S

1. Executive Summary

1.1. Background

As part of the Internal Audit Programme for 2016/17, we have undertaken an audit of the Council's systems of internal control in respect of Contract Management.

Four contracts were chosen from across the Council, these contracts were;

- Sun Realm- Boiler Repairs, Services and Replacements;
- Comensura - Temporary & Agency Staff;
- T Loughman & Co. - Construction of the Bus Interchange in Hemel Hempstead;
- P Casey Ltd - Construction and Regeneration of the Water Gardens.

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

In summary, the scope covered the following areas: Form of Contract, Variation of Contract, Governance Arrangements, Contract Management, Contract Payments and Budgetary Controls, and Management Reporting.

1.3. Summary Assessment

Our audit of the Council's internal controls operating over Contract Management found that there is a sound system of internal control designed to achieve the system objectives. There is however 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 Contract Management are shown in Section 3.

MAZARS

1.4. Key Findings

We have raised one Priority 1, one Priority 2 and one Priority 3 recommendation where we believe there is scope for improvement within the control environment. We have also raised one Systems Improvement Opportunity. The recommendations raised have been set out below:

- Key Performance Indicators / Formal milestones for Contractors (SIO);
- Confirmation of Appropriate Checks on Staff / Contractors (Priority 2);
- Analysis of Contract and Non-Contract spend (Priority 1); and
- Management Information should be scrutinised for accuracy (Priority 3).

On inspection of the four contracts chosen across the Council, it was identified that in one case the contract had not been dated. There was a hand written date of commencement for the contract; however, the dates of agreement being signed by the two parties were left blank. A recommendation has not been raised in this instance as the contract stated the commencement of the contract.

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

1.5. Management Response

We received the management response in a timely manner and the responses have been included in the main body of the report.

1.6. Acknowledgement

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

MAZARS

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

2.2. Approach and Methodology

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

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

2.3. Areas Covered

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

Form of Contract;

To confirm that signed contracts are in place which include terms and conditions to protect the Council. To confirm that performance requirements and indicators are outlined to help ensure that the council receives quality services and value for money.

Variations to Contract;

To confirm that variations to contract are appropriately documented and approved by both the Council and the contractor.

Governance Arrangement;

To ensure that roles and responsibilities relating to the contract management are clearly defined and agreed with the relevant staff. To ensure that adequate governance structure is in place to deal with any matters requiring escalation. .

Contract Management;

To confirm that performance against contract is monitored and corrective action is taken where poor performance is identified.

To ensure that the contract is managed in accordance with the Procurement Standing Orders (Contract Management).

Contract Payments and Budgetary Control;

To confirm that payments are mad in accordance with contractual agreements and the Council's financial scheme of delegation. To confirm that agreed budgets are monitored and action taken where variances are identified. .

Management Reporting;

To confirm that contractor performance and budget monitoring are appropriately reported to management.

MAZARS

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
Form of Contract	✓	≈	Systems Improvement Opportunity
Variations to Contract	✓	✓	
Governance Arrangements	✓	✓	
Contract Management	✓	? *	Recommendation 1 Recommendation 2 Recommendation 3
Contract Payments & Budgetary Control	✓	✓	
Management Reporting	✓	✓	

* The Operation of Controls for Contract Management has been determined Limited in the case of one Contract, the remaining three Contracts are at a Substantial level.

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

MAZARS

4. Observations and Recommendations

KPIs / Formal Milestones for Contractors (System Improvement Opportunity)

Recommendation
The Council should ensure that Key Performance Indicators and sectional completion dates where appropriate are written into contracts clearly defining the standards and milestones against which the Contractor can be measured.

Observation
Key Performance Indicators and milestones allow for clarification of the required level of service expected from the Contractor.
Examination of four different contracts across the Council identified that in one case, the Water Gardens restoration and regeneration, there were no Key Performance Indicators / sectional completion dates in place. There was a commencement date and expected completion date for the project and the contract is required to follow the service provisions set out in it, including use of the correct standard of building materials. The original completion date for the contract was April 2016. On review, the new estimated completion is 2nd December 2016 with a number of elements still outstanding on the contract. The price of the project has been set out in the Bill of Quantities.
The contract does not make provisions for liquidated damages and where any delays result in increased costs such as overheads, labour or storage, these will be negotiated upon final valuation including an assessment of the party responsible for the delay and quantifying any damage suffered.
Where there are no KPIs and/or sectional completion dates are not used, there is a risk that delivery of the contract may not be in line with the contract completion date. In the current position, the Council has little standing to impose pressure on the contractor to deliver in line with the contract deadlines. There are no penalties or incentives in place for timely delivery.

Responsibility
Group Manager - Procurement, Compliance & Commissioning

Management response / deadline
Group Manager Commissioning, Procurement & Compliance
The Group Manager Commissioning, Procurement & Compliance has the responsibility for ensuring that the Council's approach to contract management is clearly set out for Officers with contract management responsibilities to follow and that they are reviewed and updated to ensure that they are fit for purpose and follow best practice.
Section 14 (Contract Management) of the Council's Commissioning & Procurement Standing Orders includes a clause covering 'contract monitoring and review' and makes specific reference to the contract managers responsibility to monitor, record and report on Key Performance Indicators.
Section 14 is constantly reviewed and developed to ensure a consistent and robust approach to contract management is undertaken. A training and awareness programme for relevant Officers to attend will be arranged for the end of the 2016/17 financial year.
Due to the different type and nature of contracts that the Council awards, the contract management guidance that is set out in the Council's Commissioning & Procurement Standing Orders will not address all of the bespoke arrangements that are sometimes required within a contract.
In future it is recommended that when a contract manager requires a contract to be drafted that either significantly varies the current standard terms & conditions templates or requests for the contract to be managed in a manner that does not follow the current contract management guidance, then the GM Commissioning, Procurement & Compliance will draft an 'exception

MAZARS

report' providing justified reasons for taking this approach and that this 'exception report' is signed off by the relevant AD/GM and Legal Services.

<u>Group Manager Strategic Planning & Regeneration</u>

The contract manager for the Water Gardens contract has given thought to this contract prior to awarding it and can demonstrate reasons for not including KPI's, Sectional Completion and LAD's.

- The Council's Legal team considered that it was not appropriate to have KPIs in this contract, the performance of the contract was monitored and reported through the Regeneration Programme Board and Corvu, performance was also reviewed at monthly progress meetings with the Contractor chaired by the Contract Administrator.
- It wasn't appropriate to use 'sectional completion' on this contract as there were too many interlinked areas like the footpaths and planting and it is not normal practice to ask for this as it creates issues with completion dates and multiple maintenance periods.

'Liquidated and Ascertained Damages' (LADS) are not permitted to act as a penalty clause for a Contractors failure to meet deadlines. LADS are supposed to compensate the Council for losses incurred as a result of the delay in completion and to use LADS you are required to be able to calculate, by reference to a formula or other evidence, what those losses might be. In the case of the Water Gardens contract it would be difficult to evidence loss to the Council as a result of the delay, i.e. the Council would not incur any financial harm from delay on a project like this.

Recommendation 1: Confirmation of Appropriate Checks on Staff / Contractors (Priority 2)

Recommendation
The Council should obtain assurances from the Contractor that Eligibility to Work in the UK checks have been carried out for staff brought in from Temporary Agencies. The Council should also request confirmation that relevant background checks have been completed for all temporary / agency staff posted to roles where one is required, for example DBS Checks.

Observation
The Council should request positive confirmation from the Contractor that temporary and agency staff have been appropriately vetted and meet the post requirements to work at the Council.
In discussion with the HR Team Leader and HR Lead Officer, it was confirmed that as part of the agreement with Temporary Agencies, the agencies themselves must complete the relevant background and eligibility checks. It was confirmed that evidence or confirmation of these checks is not provided to the Council for assurance purposes.
Where the Council does not hold the assurance that the relevant background and eligibility checks have been completed, the Council cannot be sure that the temporary worker has the suitability to have access to the sensitive information they will be exposed to.

Responsibility
Group Manager - Procurement, Compliance & Commissioning

Management response / deadline
Group Manager Commissioning, Procurement & Compliance
The current Temporary Agency contract will be coming to a conclusion shortly and a new contract is close to being awarded. In both the existing and the new contracts the staff are employed by the agency, so the responsibility is on the agency to check their right to work in the UK, NI details and DBS documentation. It is recommended that at the very outset of the contract, the contract manager requests confirmation in writing from the agency of the controls and processes the agency has in place to ensure that the relevant background and eligibility checks are being carried out to a satisfactory standard.
Group Manager – People & Performance
After reviewing the contract documentation I can confirm that it is the responsibility of the agency to carry out the background and eligibility checks.
In the future the contract manager will be instructed to request a quarterly audit report from the contractor confirming that all agency workers have the right to work in the UK and a DBS check (where applicable).
30th November 2016

Page 7 82

Recommendation 2: Off Contract Spend Analysis for Agency/Temporary Staff (Priority 1)

Recommendation

Off-contract spend relating to Agency and Temporary Staff should be reviewed and analysed to ensure that Agency and Temporary Staff are appointed through the Council's approved agency where possible. Where the level of off-contract spend is high, the Council should determine whether a separate contract is required to fulfil the Council's needs and also whether a formal tender process is required.

Observation

Off-contract spend should be monitored to ensure that value for money is achieved and also to ensure that the Council does not breach the terms and conditions of the existing contract and/or procurement rules (internal policy and EU Procurement Directives).

Analysis of spend between the Council's main agency (where there is a corporate contract in place) and another agency (without a corporate contract) showed that the total spend with the main agency in 2015/16 was £335,740.90, compared to the total spend with another agency of £321,652.90 (inclusive of hourly rates to the worker and agency fees).

Where the Council has significant spend on agencies with no contractual agreement, the Council may incur additional costs if the fees are not negotiated properly. In addition, there is a risk that the Council's spend may exceed the Public Procurement Threshold and require a formal procurement process to be followed. Where the main agency is not used as a first preference, the Council may not be fulfilling the terms and conditions of the contract

Responsibility

Group Manager - Procurement, Compliance & Commissioning

Management response / deadline

Group Manager Commissioning, Procurement & Compliance

To support compliance with the Council's commissioning & procurement processes, the Council have recently increased the level of governance in relation to third party expenditure; this includes the 'No PO, No Pay' policy, the introduction of Electronic Purchasing Cards, focussed approach on requisition authorisation and an increase in in the scrutiny of contractor expenditure.

The Council's current Temporary Agency contract is coming to an end and a new contract is close to being awarded. The existing contract utilised a 'vendor neutral' approach which can sometimes limit the number of applications we receive and has caused the Council some issues in that the supplier has not always been able to provide the appropriate calibre of staff. This is coupled with dwindling external labour markets in some professional areas such as planning, Housing and Building Control which has resulted in the Council having to look for alternative supply arrangements. The new contract will be based upon a 'Supply Chain Optimisation' approach which broadens the agency reach and should address all of the issues that the Council has faced with the current contract.

It is likely that there will still be the odd occasion where a specialist or bespoke requirement will arise that will not be able to be satisfied from this corporate contract and that this requirement will need to be fulfilled utilising another approach. Where this is the case, it is important that the client officer complies with the Council's commissioning and procurement processes.

The increased focus on the requisition authorisation process will identify any potential expenditure prior to the expenditure being committed.

30th November 2016

MAZARS

Assistant Director Planning & Regeneration

In 2015, the service suffered a high and unusual degree of turnover including staff leaving for new posts, one on career break, and maternity leave. Also the previous Group Manager left for a role in the private sector.

To maintain the statutory service in Planning (Development Management), it was necessary to make a range of agency appointments to cover key vacancies.

There was, after considering and deploying other options, the need to fill vacant posts swiftly. This was done with the Oyster Partnership which specialises in professional appointments. The service would not have been able to make the necessary appointments through Comensura which covers more generic staff roles and skills.

To not appoint into vacant roles would lead to a decline in planning performance and put the Council at risk of Standards intervention by DCLG, or being opened up to the service being provided by and Alternative Provider. Slow performance would also delay key developments taking place, with negative effects on the local economy.

The hourly and daily rates put forward were understood to be competitive

MAZARS

Recommendation 3: Management Information should be scrutinised (Priority 3)

Recommendation
Management should scrutinise the information provided to them by the Contractor to ensure that the reported information is accurate, valid, and representative of actual performance.

Observation
Management Information should be scrutinised to ensure that the performance information and statistics provided by the contractor are a true representation of the actual deliverables and performance.
Review of all Management Information reports from October 2014 to March 2016 for one contract identified that the contractor had reported zero unfilled positions during this period.
In discussion with the HR Team Leader it was confirmed that the contractor has not been able to fill all positions requested, and the Council has been forced to source staff from another service provider, therefore cancelling requests due to non-fulfilment.
The Council should ensure that the true performance of the contractor is captured within the management information, and clearly define where positions are cancelled due to non-fulfilment. The contractor has a KPI in place for a 98% fulfilment rate per month; where this is not met, the contractor must identify and explain the reason for non-fulfilment.
Where management information is not scrutinised, the integrity of the report may be compromised. This may lead to poor performance not being identified and addressed in a timely manner.

Responsibility
Group Manager - Procurement, Compliance & Commissioning

Management response / deadline
Group Manager Commissioning, Procurement & Compliance
Monitoring a Contractors performance forms an integral element of a contract manager's role; this includes continuously scrutinising and challenging the data that supports the performance indicators.
Section 14 (Contract Management) of the Council's Commissioning & Procurement Standing Orders includes a clause covering 'contract monitoring and review' and makes specific reference to the contract managers responsibility to monitor, record and report on Key Performance Indicators.
Section 14 is constantly reviewed and developed to ensure a consistent and robust approach to contract management is undertaken. A training and awareness programme for relevant Officers to attend will be arranged for the end of the 2016/17 financial year.
Group Manager – People and Performance
Following discussion with the contract manager I can confirm that the agency identifies and explains the reason for non-fulfilment and informs the Council on a regular basis through dialogue as part of the customer/client relationship.
It is accepted that the current process does not document and record formal minutes and/or actions, as it was perceived that this approach would have added unnecessary administration for very little benefit.
To ensure the contract manager is fully aware of the corporate approach to contract management, they will be asked to attend the awareness training run by procurement.
March 2017

M MAZARS

Appendix A - Reporting Definitions

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

Grading of recommendations

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

Level	Definition
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

MAZARS

Appendix B - Staff Interviewed

The following personnel were consulted:

- Neil Brown   Mechanical & Electrical Team Leader - Property and Place

- Wimal Alahakon   Commercial Relationship Surveyor

- Fiona Williamson   Group Manager (Property and Place)

- Claire Covington   Strategic Planning and Regeneration Officer (Green Spaces)

- Emma Cooper   Strategic Planning and Regeneration Technical Assistant

- Jo Deacon   Strategic Planning and Regeneration Technical Assistant

- Anne Stunell   Human Resources Team Leader

- Katherine Thomas   Assistant Accountant

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

Statement of Responsibility

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

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

November 2016

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom. Registered in England and Wales No 4585162.

Mazars Public Sector Internal Audit Limited is a subsidiary of Mazars LLP. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.

M MAZARS

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted