

# Dacorum Borough Council

## Final Internal Audit Report

### Core Financial Systems

March 2018

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

CONFIDENTIAL

**Distribution List:**

Sally Nunn – Team Leader (Financial Services)  
Caroline Souto – Team Leader (Financial Planning & Analysis)  
Fiona Jump – Group Manager (Financial Services)  
James Deane – Corporate Director (Finance and Operators) (Final Report Only)  
Sally Marshall – Chief Executive (Final Report only)

**Key Dates:**

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

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

# Contents

1. Executive Summary .....	1
2. Scope of Assignment .....	3
3. Assessment of Control Environment.....	5
4. Observations and Recommendations .....	6
<b>Recommendation 1: Implementation of approval process for Credit Notes (Priority 2) .....</b>	<b>6</b>
Appendix A - Reporting Definitions .....	7
Appendix B - Staff Interviewed.....	8
Statement of Responsibility.....	9

# 1. Executive Summary

## 1.1. Background

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

## 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 the Core Financial Systems, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Accounts Receivable, Cash and Banking, Accounts Payable, Treasury Management and Main Accounting.

## 1.3. Summary Assessment

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

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

Evaluation Assessment	Testing Assessment
Full	Substantial

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

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

#### 1.4. **Key Findings**

We have raised one Priority 2 recommendation where we believe there is scope for improvement within the control environment. This recommendation was in respect of the following:

- Implementation of the approval process for Credit Notes (Priority 2).

A follow up of the recommendations raised in the 2016/17 Core Financial Systems internal audit report was also completed. We confirmed that two recommendations have been implemented and one has been partly implemented. The details of the follow up status are as follows:

##### Recommendation 1: Review of the Financial Regulations (Priority 2)

Partly-implemented – see Recommendation 1 for details.

##### Recommendation 2 - Review of the Holding Accounts (Priority 3)

Implemented – Review of the Council's four income suspense accounts identified that whilst a few items were held for longer than three months, the value of all accounts has significantly decreased since last years' audit and evidence was provided that items in the suspense account were being actively investigated.

##### Systems Improvement Opportunity 1: Supporting Documentation for Journals

Implemented – The central master spreadsheet for Sundry Creditors, Sundry Debtors and Payments in Advance was reviewed and it was confirmed that all required supporting documents were attached.

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.

## 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 the Core Financial Systems, 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:

#### **Accounts Receivable**

Details of the invoices are checked for accuracy, completeness and validity. (For self-service invoices, this is now automated and checks are completed through a workflow. A sales order request turns into an invoice when it is approved).

BACS payment notification reports are regularly checked to the bank statements.

Accuracy and validity of credit notes are checked.

Aged debtor reports are reviewed regularly.

Refunds and write-offs are approved prior to action being taken.

Debt recovery enforcement progress is monitored and recovery actions are undertaken in accordance with the Council's policy.

#### **Cash and Banking**

All cheque income receipted across sites or by the Central Admin team are accounted for and recorded fully on Aim promptly before they are banked.

All income (cheque, card payment, payments at paypoint/post office, or bank transfers) are receipted in the Council's bank account correctly and accounted for and recorded fully.

#### **Accounts Payable**

Formal and robust procedures are in place for making amendments to supplier information.

Invoices are matched to purchase orders prior to payment. (No PO No Pay process is now in place)

Retrospective purchase orders are monitored and any persistent non-compliance with the PO process is escalated.

For any exempt purchases (where a PO is not required), invoices are authorised in accordance with the approved scheme of delegation.

Any duplicate payments are identified and investigated promptly.

Exception reports are designed to identify high level purchase orders which potentially should have gone through the Procurement function in line with the Council's Standing Orders.

BACS payment runs are checked and authorised in accordance with the approved scheme of delegation.

Regular reconciliations with the main accounting system take place.

Open POs are regularly checked and cleansed to ensure the accuracy of the financial commitment raised on the system.

### **Treasury Management**

Any transactions/deals are made only with approved institutions, and are signed off in accordance with approved authorisation limits.

The cash flow position is monitored on a daily basis.

The Treasury Management system is regularly reconciled to the cash book and the main accounting system.

Investment performance reports are produced and reviewed regularly.

Investment strategy and performance is regularly reported to senior management and members as required.

### **Main Accounting**

Requests to amend or create new codes are authorised by an appropriate officer.

Journals are appropriately authorised and fully supported by documentation.

Suspense accounts are checked and cleared regularly.











All feeder systems (other than those above) are reconciled regularly and any variances investigated in a timely manner.

Bank reconciliations are undertaken regularly and any variances are investigated in a timely manner.

### 3. Assessment of Control Environment

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

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

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Accounts Receivable			Recommendation 1
Cash and Banking			
Accounts Payable			
Treasury Management			
Main Accounting			

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

## 4. Observations and Recommendations

### Recommendation 1: Implementation of approval process for Credit Notes (Priority 2)





<p><b>Recommendation</b></p> <p>All Credit Notes issued should be approved in line with the Scheme of Delegation set out within the Council's Financial Regulations.</p>
<p><b>Observation</b></p> <p>Management should ensure that the current working practice adopted by staff with regards to Credit Notes is in line with the Council's Financial Regulations.</p> <p>The 2016/17 audit identified that the approval process for Credit Notes, as stated by the Council's Financial Regulations, was not followed by the staff. The Financial Regulations at the time required the Assistant Director to individually approve all Credit Notes which was considered to be impractical. As a result, a recommendation was raised that the Financial Regulations are reviewed to ensure that they are up to date with the practices adopted by staff. This has now been done and the new Financial Regulations (July 2017) require that:</p> <p>"2.w) Where an invoice is cancelled, the reason for cancellation must be recorded in a written instruction and authorised in line with the Scheme of Delegation, Annex D. In all other circumstances where an invoice needs to be cancelled, the write off procedure must be used (page 40)." The approval limits for the Scheme of Delegation are as follows:</p> <ul style="list-style-type: none"> <li>• Team Leader £10,000;</li> <li>• Group Manager £50,000;</li> <li>• Assistant Director £250,000;</li> <li>• Corporate Director £1,000,000; and</li> <li>• Section 151 Officer and Chief Executive £10,000,000.</li> </ul> <p>Testing of ten credit notes issued confirmed that the Accounts Receivable Team processed the requests without seeking further approval in line with the Scheme of Delegation in the Financial Regulations.</p> <p>Where Credit Notes are not approved in line with the Financial Regulations, there is a risk that inappropriate or incorrect refunds are issued and paid by the Council.</p>
<p><b>Responsibility</b></p> <p>Financial Services Team Leader</p>
<p><b>Management response / deadline</b></p> <p>A process has been put in place to ensure that the appropriate approval is granted before a credit note is raised. This was done by e-mail and these e-mails were saved into information@work as evidence. In addition to this the system administrator has built a workflow into Agresso, which means that since then all credit notes automatically go for approval as per the scheme of delegation.</p> <p>Implemented</p>



## Appendix A - Reporting Definitions

### Audit assessment

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

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

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

### Grading of recommendations

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

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

## Appendix B - Staff Interviewed

The following personnel were consulted:

- Sally Nunn Financial Services Team Leader
- Catherine Hamilton Financial Services Lead Officer
- Caroline Souto Financial Planning and Analysis Team Leader
- Poonam Mehta Senior Financial Accountant Team Leader
- Fiona Jump Financial Services Group Manager
- Clare Dempsey Trainee Accountant
- Tracy Claridge Assistant Financial Accountant
- Yamini Krishnan Financial Accountant
- Andrew Linden Commissioning, Procurement & Compliance Team Leader
- Lyn Smith Sundry Debtors Lead Officer
- Julie Sims Administrative Officer

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

## Statement of Responsibility

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

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

### **Mazars Public Sector Internal Audit Limited**

#### **London**

#### **March 2018**

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.