

# **DACORUM BOROUGH COUNCIL**

Internal Audit Annual Report

For the year ended: 31 March 2018

Presented to Audit Committee meeting of: 25 July 2018

# Contents

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

## Appendices

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

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

### Status of our reports

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

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

# 01 Introduction

## *Scope and purpose of internal audit*

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

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

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

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

## *Acknowledgments*

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

# 02 Internal Audit Work undertaken in 2017/18

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

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

No priority 1 recommendations were raised during the year.

# 03 Annual Opinion

## *Scope of the Internal Audit Opinion*

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

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

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

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

### *Annual Opinion*

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

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

### *Corporate Governance and Risk Management*

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

### *Internal Control*

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

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

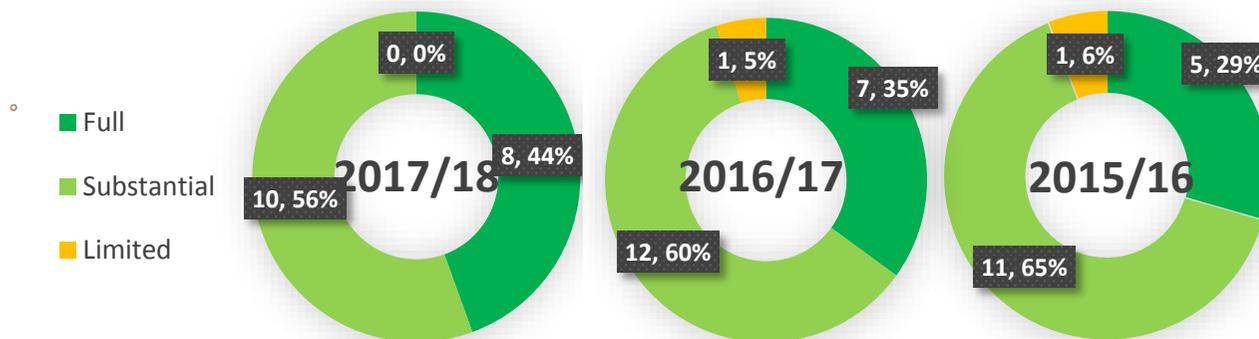
In respect of follow up of recommendations, internal audit has an established process for tracking the implementation of recommendations made in their audit reports and report on their status to each Audit Committee. During the year, we reviewed the implementation of recommendations as they fell due.

All recommendations made during the year were accepted by Management.

# 04 Benchmarking

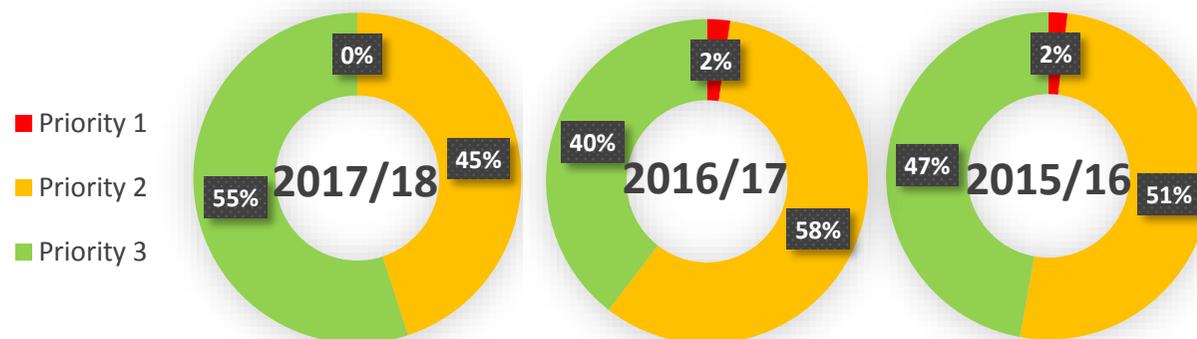
This section compares the Assurance Levels (where given) and categorisation of recommendations made at Dacorum Borough Council.

## Comparison of Assurance Levels (where given)



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

## Comparison of Recommendations by categorisation



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

## 05 Performance of Internal Audit

### *Compliance with professional standards*

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

### *Internal Audit Quality Assurance*

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

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

### *Conflicts of Interest*

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

### *Performance Measures*

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

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

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

# A1 Summary of internal audit work undertaken in 2017/18

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

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

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

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

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.

## A2 Statement of Responsibility

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

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

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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