

Dacorum Borough Council

Final Internal Audit Report

Core Financial Systems

May 2019

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

CONFIDENTIAL

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Key Dates:

Date of fieldwork: March/April 2019
Date of draft report: May 2019
Receipt of responses: May 2019
Date of final report: May 2019

Status of our reports

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

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

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1. Executive Summary

1.1. Background

As part of the Internal Audit Programme for 2018/19, 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	Full

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.

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 3 recommendation, where we believe there is scope for improvement within the control environment. This is set out below:

- Delegated decision making (Priority 3)

A follow up of the recommendation raised in the 2017/18 Core Financial Systems internal audit report was also completed. We confirmed that the recommendation has been implemented. The details of the follow up status are as follows:

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

Implemented – We confirmed that credit notes approval is given via the Agresso workflow system in line with the authorisation limits specified in the Council's Scheme of Delegation

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 invoice, 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 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), invoice is 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 reconciliation is 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			
Cash and Banking			
Accounts Payable			Recommendation 1
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: Delegation of Decisions (Priority 3)

<p>Recommendation</p> <p>The Council should ensure that it is clear when Council Officers are approving purchase orders on behalf of the cabinet.</p>
<p>Observation</p> <p>Audit carried out testing on raising purchase orders and it was found that in one instance the value of the purchase order was £11,989,954.01 and was approved in the Finance system by the Chief Executive. However the Financial Regulations set the authorisation limit of the Chief Executive as up to £10m. Further investigations into the specific purchase order confirmed that it related to a development that had been approved by cabinet prior to the Chief Executive approving the purchase order and therefore the CEO was approving on the Cabinet’s behalf.</p> <p>To ensure the financial regulations are aligned to the Council’s operations the delegated limits should be updated to reflect the instances where purchase orders are approved on behalf of the cabinet.</p> <p>There is a risk that the delegations are not aligned to the operations of the business.</p>
<p>Responsibility</p> <p>Group Manager (Financial Services)</p>
<p>Management response / deadline</p> <p>The approval of a transaction on the Council’s financial system is an officer function. The Chief Executive has the highest approval limit of any Council officer. She is the appropriate officer to approve the transaction cited above on the Council’s financial system.</p> <p>Financial system authorisation limits will be updated as part of the refresh of the Council’s Financial Regulations to encompass expected high value transactions associated with contractual and other arrangements made in line with the Council’s Procurement Standing Orders. Deadline: 30 September 2019.</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
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.

Appendix B - Staff Interviewed

The following personnel were consulted:

- Sally Nunn Financial Services Team Leader
- Catherine Hamilton Financial Services Lead Officer
- Lexi Schultz Financial and Regulatory Accounting Team Leader
- Fiona Jump Financial Services Group Manager
- Jackie Doyle Financial Accountant
- Tracy Claridge Assistant Financial Accountant
- Andrew Linden Commissioning, Procurement & Compliance Team Leader
- Sarah Allen Lead Officer Central Admin

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

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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