

Dacorum Borough Council



Internal Audit Report
Core Financial Systems and Budgetary Control
March 2020

FINAL REPORT



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If you should wish to discuss any aspect of this report, please contact Sarah Knowles, Senior Manager, sarah.knowles@mazars.co.uk or Peter Cudlip, Partner, peter.cudlip@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, re-interpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, re-interpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in Appendix A3 of this report for further information about responsibilities, limitations and confidentiality.

01 Introduction

As part of the Internal Audit Plan for 2019/20, we have undertaken a review of Core Financial Systems and Budgetary Control via self-service questionnaire approach. The objectives of the audit were to evaluate the adequacy of the system of internal control and its application in practice within the area under review.

We engaged with a number of staff members during the review and are grateful for their assistance during the course of the audit.

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.

The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A1.

The report summarises the results of our internal audit work and, therefore, does not include all matters that came to our attention during the audit. Such matters have been discussed with the relevant staff.

02 Background

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Core Financial Systems, and provide guidance on how to improve the current controls going forward.

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.

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

03 Key Findings

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

Adequacy of System Design	Effectiveness of Operating Controls
 Good Assurance	 Good Assurance

Main Findings
We did not raise any recommendations as a result of this audit.
In our previous audit report, no recommendations were raised.

Priority	Number of recommendations
1 (Fundamental)	0
2 (Significant)	0
3 (Housekeeping)	0
TOTAL	0

Examples of areas of strength
<ul style="list-style-type: none"> • Purchase orders are authorised as per Financial Regulations and there is a segregation of duties between the officer that orders the goods, signs the goods received note and authorises the payment. • The various key control accounts reconciled monthly with the General ledger, were checked, signed off and dated by an independent officer. Furthermore, any differences were explained, investigated and cleared in a timely manner. • Investment strategy and performance is regularly reported to senior management and Members as required. Deals were only made with approved institutions, and were signed off in accordance with approved authorisation limits. • The 2019/20 budget was approved by Cabinet and Council in February 2019. The budget monitoring information is reviewed by budget holders and budget monitoring meetings are undertaken on a monthly basis. • Virements are appropriately authorised and fully supported by documentation.

Risk Management

The key organisational risks most relevant to Core Financial System are as follows:

- Funding and income is not sufficient to deliver the Council's Corporate Objectives (*SR1, Strategic Risk Register December 2018*)
- That the Borough does not secure sufficient investment in essential infrastructure that is required for continued and improved economic performance and housing delivery that is sustainable and fit for the future (*SR6, Strategic Risk Register December 2018*)

Value for Money

The Council, as a public body, is responsible for providing proper stewardship of the public funds it utilises by ensuring value for money is achieved within the delivery of its services. The Council's governance structure and reporting framework helps to ensure that budget positions and any significant risks are reviewed on a consistent basis.

04 Areas for Further Improvement and Action Plan

No recommendations were raised as a result of this audit.

A1 Audit Information

Audit Control Schedule	
Client contacts:	Fiona Jump – Financial Services Group Manager Tracy Claridge – Assistant Financial Accountant Caroline Souto – Team Leader - Financial Planning & Analysis
Internal Audit Team:	Peter Cudlip, Partner Sarah Knowles, Senior Audit Manager Mark Lunn, Audit Manager Priya Kumre, Carmela Alas, Auditors
Work commenced	24 th February 2020
Finish on Site \ Exit Meeting:	6 th March 2020
Draft report issued:	-
Management responses received:	-
Final report issued:	17 th March 2020

Scope and Objectives

The overall objective of this audit was to provide assurance that the systems of control in respect of Core Financial Systems, with regards to the areas set out below are adequate and are being consistently applied.

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.

Budgetary Control

- All members of staff act consistently in compliance with the legislative and management requirements and the budget management functions are conducted in an economic, efficient and effective manner. Responsibility for managing budgets is clearly established and is delegated to appropriately qualified, trained and competent staff.
- Budgets are set and funds allocated so as to achieve the organisation's strategic and operational objective
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- Budgets are appropriately approved and are completely and accurately loaded onto the financial management system in a timely manner.
- Budgets are communicated to all the relevant parties to allow effective monitoring by budget holders.
- Robust procedures are in place for the monitoring of budgets. Any variances identified are investigated and remedial actions taken where appropriate so as to minimise the risk of budget over/underspends.
- Timely and accurate financial information is produced on a regular basis and is reported to the appropriate forum to facilitate effective monitoring and decision making.
- Budget adjustments including virements are completely, accurately, and validly processed in a timely manner and supporting documentation is retained to support the actions taken.

Scope and Objectives continued

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

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.

Definitions of Assurance Levels		
Assurance Level	Adequacy of system design	Effectiveness of operating controls
Good Assurance:	There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied, or any weaknesses identified do not affect key controls and are unlikely to impair the achievement of the objectives of the system.
Substantial Assurance:	Whilst there is a basic sound system of internal control design, there are weaknesses in design, which may place some of the system objectives at risk.	While controls are generally operating effectively, there are weaknesses, which put some of the system objectives at risk.
Limited Assurance:	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.
No Assurance	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.

Definitions of Recommendations	
Priority	Description
Priority 1 (Fundamental)	Recommendations which are fundamental to the system and upon which the organisation should take immediate action. Major issues for the attention of senior management and the Audit Committee
Priority 2 (Significant)	Recommendations, which, although not fundamental to the system, provide scope for improvements to be made. Recommendations for local management action in their areas of responsibility.
Priority 3 (Housekeeping)	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed. Detailed problems of a minor nature resolved on site through discussions with local management.

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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