



Internal Audit

DRAFT


## Dacorum Borough Council

Assurance Review of Key Financial Controls

2020/21

January 2021

## Executive Summary

<p><b>OVERALL ASSESSMENT</b></p> 	<p><b>KEY STRATEGIC FINDINGS</b></p> <ul style="list-style-type: none"> <li>Financial transactions, processed by the Financial Services team, is in accordance with the Council’s Financial Regulations and Scheme of Delegation.</li> <li>Access controls to the Council’s financial ledger has been assigned appropriately to staff, dependant on role and responsibilities.</li> <li>Key financial policies/ strategies are approved by Cabinet.</li> </ul>								
<p><b>ASSURANCE OVER KEY STRATEGIC RISK / OBJECTIVE</b></p> <p>SR1 ~ Funding and income is not sufficient to deliver the Council's Corporate Objectives</p>	<p><b>GOOD PRACTICE IDENTIFIED</b></p> <ul style="list-style-type: none"> <li>Finance complete a monthly ‘Key Financial Control’ report, informing Senior Finance officers of the completion of month end key financial controls.</li> <li>Processes introduced by the Business Systems Developer, utilising existing features of the Unit 4 platform, has improved the Financial Information System controls.</li> </ul>								
<p><b>SCOPE</b></p> <p>The review assessed the adequacy and effectiveness of the internal controls in place at the Council for managing identified key financial systems. The review comprised of a number of compliance checks on activities in the areas of core financial responsibility for the organisation. The checks were carried out against the authorised procedures, and for any non-compliant transactions additional checks to be performed to establish whether the organisation’s responsibilities and accountabilities had been met.</p>	<p><b>ACTION POINTS</b></p> <table border="1"> <thead> <tr> <th>Urgent</th> <th>Important</th> <th>Routine</th> <th>Operational</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>0</td> <td>0</td> <td>1</td> </tr> </tbody> </table>	Urgent	Important	Routine	Operational	0	0	0	1
Urgent	Important	Routine	Operational						
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## Assurance - Key Findings and Management Action Plan (MAP)

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
There are no recommendations raised for this audit.							

PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.
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<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.
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<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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## Operational - Effectiveness Matter (OEM) Action Plan

Ref	Risk Area	Finding	Suggested Action	Management Comments
1	Directed	<p>The Council replaced the legacy Financial Information System, Agresso with a substantially updated version now known as Unit4. Unit4 provides far greater functionality including the use of workflow. The Unit4 system is managed by the Business Systems Developer (BSD). When carrying out the audit there was clear evidence of the enhancements that have been introduced by the BSD, building on the features of the Unit4 platform to ensure effective controls are in place.</p> <p>It was noted that there is significant reliance placed on the BSD. There is no officer within the team, who can undertake the BSD role, if he were to leave or go on long term sickness.</p>	<p>The Council needs to consider nominating and training an officer to deputise in the event the BSD is absent or leaves.</p>	

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures.

## Findings



### Directed Risk:

Failure to properly direct the service to ensure compliance with the requirements of the organisation.

Ref	Expected Key Risk Mitigation	Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
GF	<b>Governance Framework</b> There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.	In place	-	1
RM	<b>Risk Mitigation</b> The documented process aligns with the mitigating arrangements set out in the corporate risk register.	In place	-	-
C	<b>Compliance</b> Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.	In place	-	-

### Other Findings

#### Governance Arrangements



A review of the Council's Financial Regulations document was carried out and it was noted that it is reviewed every two years and was last reviewed in 2019. The document provides a framework for managing the financial affairs of the Council. The high-level Scheme of Delegation that is included within the Financial Regulation document, sets out the authorisation levels for managers. The Financial Regulations Document also outlines the requirement for each of the Corporate Directors to maintain their own scheme of delegation identifying the officers who are authorised to act on their behalf.



The Council has a suite of key financial procedure documents in place, which have been designed to ensure compliance with the Council's Financial Regulations. The Council checks that these documents are still current as part of the monthly Key Control Review process.

## Other Findings



The Council maintains a number of Key Strategy documents which support the control of the Council's finances, for example, the Annual Treasury Management Strategy Statement (TMSS) which was agreed by Cabinet in February 2020. The TMSS includes areas that ensures effective treasury management and includes statements on:

- the Capital Expenditure (Including Prudential Indicators);
- the Minimal Revenue Provision (Outlining how residual Capital expenditure will be recharged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised); and
- the Investment Strategy (the parameters on how investments are to be managed).



The Council has a "Key Financial Control" document in place which is compiled on a monthly basis by the Financial Accountant, reviewed and digitally signed by the Team Leader (Financial & Regulatory Accounting). The document lists the following tasks to be undertaken:

- Feeder Systems posted to the General Ledger;
- Reconciliations have been completed;
- Holding and suspense accounts have been reviewed;
- Strategies, Policies and procedure documents are current;
- Key financial procedures have been carried out; and
- Statutory Returns have been filed within the requisite timeframe.

## Financial Information System



A review of the access controls for the Financial Information System (FIS) established that users are assigned "role-based" user accounts, which ensures that users are only allocated the permissions that they require to carry out their job. A list of system users was obtained together with the roles that they had been assigned and testing identified that appropriate roles had been assigned to users. Privileged roles that have been assigned to Senior Managers or finance officers have been restricted to the appropriate user accounts.



It was noted that some officers were found to have more than one user account. It was established that these users are "corporate experts" and have been provide an additional account in order for them to scrutinise and authorises specific spending. The Business Systems Support Manager has recognised the potential risk of allowing officers to have two user accounts and has therefore created a report using Unit 4 workflow capabilities to generate an e-mail which is sent to the individual's line managers when the system identifies a transaction that has been initiated and authorised by the same person.

## Other Findings

### Compliance - Accounts Receivable



It was established that the Accounts Receivable income originates from one of three sources:

- Sales orders - Designated officers within the Council have been granted permission to raise sales orders which are entered onto the Accounts Receivable system, once checked and approved by a member of the Financial Services Team a sales invoice is created and sent to the Customer
- Reoccurring invoices - are set up within the system to be issued on predefined dates. These are sent to Customers to whom the Council provides goods or services, such as Trade Waste, Commercial Rents and individuals who subscribe to the Lifeline Community Alarm Service.
- One-off invoices - are set up by the Financial Services Team on receipt of an e-form request.



The BACS payment notification reports are checked by the Finance team, as part of the bank reconciliation process.



There has been a significant rise in the number of credit notes raised this year, due to the Council being unable to provide services as a result of the Covid Pandemic. Credit notes can only be raised against sales invoice held on the system.



Aged Debtor reports are reviewed by Finance on a monthly basis. The Council monitors the management of debtors via a Key Performance Indicator (KPI) 'FIN30 - In Year Percentage Collection excluding CIL's (% collected of invoices issued in the current year)'. At the time of the audit, the KPI outturn stood at 84.6% against the annual target of 90%.



Review and testing of a sample of debt write offs actioned during the year, identified that the "Sundry Debt Write-Off Request" form had been completed and digitally signed by the Team Leader, the Financial Services Group Manager and the Section 151 Officer. For material value write-offs, these were forwarded to the Portfolio Holder for approval in accordance with the Financial Regulations.

### Compliance - Accounts Payable





Finance undertakes periodic testing to establish the volume of retrospective orders raised, which to date has identified a relatively low number of instances where this has occurred. Whereas, Purchase Orders (POs) matched to invoices equates to 80%. Managers have started to upload call-off orders, obtaining authorisation up front for a set value for invoices received throughout the year.





Invoices are matched to orders, where a Goods Received Note has been processed to evidence receipt of the items that appear on the invoice. Invoices without POs are authorised upon receipt. A data analytics exercise was undertaken for all invoices processed at the time of the audit, which confirmed that in all cases invoices had been authorised in accordance with the Council's Scheme of Delegation.


## Other Findings


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The Business Systems Development Manager has created a specific report which is designed to identify any potential duplicate payments, which is run on a daily basis. A Finance officer has been assigned with responsibility to check the report and resolve any overpayment issues, if the report has identified a genuine duplicate payment.
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The Procurement Team have access to system reports that informs them of high value purchase orders, which may/should have been subject to the Council's Procurement rules. At the beginning of each year the Procurement team produce a 'Forward Plan' which outlines all of the key projects and details of the contracts that they are aware of. Every 6 months, Group Managers are issued with a report which highlights any breach of the Council's Standing Orders.
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To date, the Council has issued one hundred plus purchase cards to staff, which is referred to as 'Electronic Payment Card' (EPC). The EPC spending records for the period April to September 2020, revealed spend totalling £261,743. Whilst there are clear advantages in using EPCs and savings in relation to processing payments to suppliers, the use of the cards is a high risk strategy. The cards payments circumvent the control processes that are embedded within the Accounts Payable system. The Council has considered this risk and is effectively managing the EPC spending. All card spending is retrospectively checked and signed off, there are policies in place which all card holders are required to sign before the card is issued to them. Spending is published on the Council's "Transparency" pages of the Website and the Procurement team review the spending that has been reported. There have been no reported issues of fraudulent misuse of EPCs.
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The BACS payment runs are checked and authorised in accordance with the Councils Scheme of Delegation. A BACS 'Control Sheet' is generated, which is completed and authorised in accordance with the "BACS Run Procedure Document". Any payments over £40,000 are checked and individually digitally signed on the Control Sheet by a Senior Finance Officer.
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The reconciliation between the feeder systems and the General Ledger is recorded on the Key Control Document along with details of the reviewing officer. Review of the Accounts Payable reconciliation for the period June to September 2020, identified that the reconciliations were compiled on a monthly basis and signed off by the Lead Officer in Financial Services.
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Longstanding commitments that are held on Unit4, in relation to orders that have not been paid, are checked by the Accountants to ensure that they are valid. E-mails are also sent to managers if the order has not been cleared within two weeks.

## Compliance - Treasury Management

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The Council has adopted a low risk approach to investments, currently restricting the portfolio to UK financial organisations. At the time of the audit, the Council's current portfolio stood at circa £78m.
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The Council's treasury management advisers, Link Asset Services, provide expertise and guidance in developing an Investment Strategy. Cabinet is presented with reports on treasury management policies, practices and activities, including, mid-year review and an annual report.
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Review of the 'Summary Report of Investment's as at 30 September 2020, revealed that all investments placed during the year were found to be in compliance with the Investment Strategy. The return on all investments is low due to the current level of interest rates.



## Other Findings

-  Review and testing of CHAPS payments, identified that the investment payments were authorised in accordance with the Scheme of Delegation and were digitally signed by the Senior Finance Managers.
-  Borrowing by the Council is kept to a minimum, the information on current borrowing is included in the same report as investments.
-  The Council utilises the Logotech system to manage Treasury Management, this software supports the Council in managing, treasury risk, compliance and governance. Cash flows are monitored daily.

## Compliance - Main Accounting

-  Changes or requests for new accounting codes must be approved by the Group Manager for Financial Services. A list of new codes created within the current financial year in Unit4 was obtained, each change contained links to the request forms, which had been approved by the designated officer.
-  Journals are raised and processed by the Finance team. A data analytics exercise was undertaken for all journals processed to date, which identified that all journals had been entered and authorised by a member of the Financial Services Team and that there were no journals entered and approved by the same user. Providing assurance that there is adequate segregation of duties in place over journal processing.
-  Suspense and holding accounts are listed on the Key Control Document, which notes details of the officer who performed the check for each account. Review of the Key Control Documents for the period June to September 2020, revealed that the document contained evidence of check by way of sign off.
-  The feeder system reconciliation, including the payroll (which is outsourced), are checked and signed off and this is noted on the Key Control Document.
-  Bank reconciliations are performed monthly and the current balances are recorded on the Key Control Document.



**Delivery Risk:**

Failure to deliver the service in an effective manner which meets the requirements of the organisation.

Ref	Expected Key Risk Mitigation		Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
PM	<b>Performance Monitoring</b>	There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.	Out of Scope	-	-
FC	<b>Financial Constraint</b>	The process operates within the agreed financial budget for the year.	Out of Scope	-	-
R	<b>Resilience</b>	Good practice to respond to business interruption events and to enhance the economic, effective and efficient delivery is adopted.	Out of Scope	-	-

## Scope and Limitations of the Review

1. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan. As set out in the Audit Charter, substantive testing is only carried out where this has been agreed with management and unless explicitly shown in the scope no such work has been performed.

## Disclaimer

2. The matters raised in this report are only those that came to the attention of the auditor during the course of the review, and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

## Effectiveness of arrangements

3. The definitions of the effectiveness of arrangements are set out below. These are based solely upon the audit work performed, assume business as usual, and do not necessarily cover management override or exceptional circumstances.

<b>In place</b>	The control arrangements in place mitigate the risk from arising.
<b>Partially in place</b>	The control arrangements in place only partially mitigate the risk from arising.
<b>Not in place</b>	The control arrangements in place do not effectively mitigate the risk from arising.

## Assurance Assessment

4. The definitions of the assurance assessments are:

<b>Substantial Assurance</b>	There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved.
<b>Reasonable Assurance</b>	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved.
<b>Limited Assurance</b>	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved.
<b>No Assurance</b>	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

## Acknowledgement

5. We would like to thank staff for their co-operation and assistance during the course of our work.

## Release of Report

6. The table below sets out the history of this report.

Stage	Issued	Response Received
<b>Audit Planning Memorandum:</b>	16 <sup>th</sup> September 2020	16 <sup>th</sup> September 2020
<b>Draft Report:</b>	14 <sup>th</sup> January 2021	
<b>Final Report:</b>		

# AUDIT PLANNING MEMORANDUM

## Appendix B

<b>Client:</b>	Dacorum Borough Council		
<b>Review:</b>	Key Financial Controls		
<b>Type of Review:</b>	Assurance	<b>Audit Lead:</b>	Peter Baker

<b>Outline scope (per Annual Plan):</b>	<b>Rationale:</b> This is the main financial ledger and an important system for the Councils which is audited annually. <b>Scope:</b> To assess the adequacy and effectiveness of the internal controls in place at the Council for managing identified key financial systems. The review comprising a number of compliance checks on activities in the areas of core financial responsibility for the organisation. The checks to be carried out against the authorised procedures, and for any non-compliant transactions additional checks to be performed to establish whether the organisation’s responsibilities and accountabilities had been met.		
<b>Detailed scope will consider:</b>	<p>Directed</p> <p>Governance Framework: There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.</p> <p>Risk Mitigation: The documented process aligns with the mitigating arrangements set out in the corporate risk register.</p> <p>Compliance: Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.</p>	<p>Delivery</p> <p>Performance monitoring: There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.</p> <p>Financial constraint: The process operates with the agreed financial budget for the year.</p> <p>Resilience: Good practice to respond to business interruption events and to enhance the economic, effective and efficient delivery is adopted.</p>	
<b>Requested additions to scope:</b>	(if required then please provide brief detail)		
<b>Exclusions from scope:</b>	N/a		

<b>Planned Start Date:</b>	Sept & Nov 2020	<b>Exit Meeting Date:</b>	26/11/2020	<b>Exit Meeting to be held with:</b>	Group Manager – Financial Services
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### SELF ASSESSMENT RESPONSE

<b>Matters over the previous 12 months relating to activity to be reviewed</b>	<b>Y/N (if Y then please provide brief details separately)</b>
Has there been any reduction in the effectiveness of the internal controls due to staff absences through sickness and/or vacancies etc?	N
Have there been any breakdowns in the internal controls resulting in disciplinary action or similar?	N
Have there been any significant changes to the process?	N
Are there any particular matters/periods of time you would like the review to consider?	N