



# **DACORUM BOROUGH COUNCIL**

## **INTERNAL AUDIT PROGRESS REPORT**

### **Audit Committee – December 16 2015**

This report and the work connected therewith are subject to the Terms and Conditions of the contract dated 1<sup>st</sup> April 2015 between Dacorum Borough Council and Mazars Public Sector Internal Audit Limited. The report is produced solely for the use of Dacorum Borough Council. Its contents should not be quoted or referred to in whole or in part without our prior written consent except as required by law. Mazars Public Sector Internal Audit Limited will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purpose.

# CONTENTS

Introduction .....	1
Background.....	1
Progress to Date .....	1
Other Work:.....	1
Follow-up of Recommendations.....	2
Priority 1 Recommendations .....	4
Appendix 1 – Status of Audit Work 2015/16.....	5
Appendix 2 - Summary of Final Reports .....	10
Appendix 3 – Follow-up of Recommendations 2015/16 .....	15
Appendix 4 - Statement of Responsibility.....	17

## Introduction

This progress report to the Audit Committee covers the work carried out during the period April 1<sup>st</sup> 2015 to November 2015 by Mazars Public Sector Internal Audit Limited.

Appendix 1 outlines progress to date against the 2015/16 Internal Audit Plan.

## Background

The purpose of the internal audit plan is to identify the work required to achieve a reasonable level of assurance to be provided by Mazars Public Sector Internal Audit Limited in compliance with the Code of Practice for Internal Audit.

The fundamental role of Internal Audit is to provide senior management and Members with independent assurance on the adequacy, effectiveness and efficiency of the system of internal control, and to report major weaknesses together with recommendations for improvement. This role is fulfilled by carrying out appropriate audit work, normally in accordance with a strategic plan and an annual operational plan, as approved by the Director of Finance and the Audit Committee.

As internal audit is a major source of assurance that the Council is effectively managing the principal risks to the achievement of its corporate objectives, a key rationale for the development of the internal audit plan was the Council's own Corporate and Service Risk Registers and how the internal audit plan can provide this assurance.

## Progress to Date

Audit fieldwork on the 2015/16 Internal Audit Plan is progressing well and audit coverage has been in line with the Plan, as shown in Appendix 1.

We have issued the following Final reports:

- Licensing (Evaluation Assurance: **Substantial**. Testing assurance: **Substantial**).
- Parking (Evaluation Assurance: **Substantial**. Testing assurance: **Substantial**).
- Performance Management (Evaluation Assurance: **Full**. Testing assurance: **Full**).
- PCI DSS (Evaluation Assurance: **Full**. Testing assurance: **Substantial**).
- Housing Repairs (Evaluation Assurance: **Substantial**. Testing assurance: **Substantial**).
- Right to Buy (Evaluation Assurance: **Substantial**. Testing assurance: **Limited**).

## Other Work:

### Assurance Framework

The approach we are taking is based upon us supporting the Council in the development of its draft Assurance Framework and in future years, driving the Internal Audit plan from this framework. The Assurance Framework will provide enhanced assurance around governance procedures and will further enhance the assurance needs of the senior management and other key stakeholders of the Council.

The Key Questions in the framework have been agreed by management, and we have almost completed identifying the evidence needed to support the statements made. In future years management will need to update the evidence trail and this will be reviewed by Internal Audit. We propose to select a sample of Key Questions during quarter 4 in order to verify the supporting documentation that has been included as evidence in the framework.

## Follow-up of Recommendations

### 2015/16

The table below details the recommendations raised in the audit reports for 2015/16 and 2014/15. It should be noted that progress in implementing recommendations raised has been followed up, as part of the 2015/16 audit plan and summary of the outcome is shown in the table below:





Year	Total Recommendations	Implemented	%	Implemented or partly implemented	%
2015/16	27	6	22%	6	22%
2014/15	39	36	92%	39	100%
<b>Total</b>	<b>66</b>	<b>42</b>	<b>64%</b>	<b>45</b>	<b>68%</b>

Appendix 3 provides a summary of the status of all 2015/16 recommendations where the proposed implementation date was at or before 30<sup>th</sup> November 2015.

## Definition of Assurance & Priorities

### 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.

## Priority 1 Recommendations

We have raised one Priority 1 recommendation in the final reports issued since the last Audit Committee meeting. This Priority 1 recommendation was raised in the Right to Buy report, and was as follows:

**Recommendation:** Identity and Tenancy checks should be completed within four weeks of the Right to Buy applications being submitted. Consideration should be given to setting up a central e-mail account to which identity and tenancy check requests should be sent, and which should be monitored weekly to ensure that all requests are promptly processed.

# Appendix 1 – Status of Audit Work 2015/16

	Area	Scope	Plan Days		Start of Fieldwork	Status	Opinion		Recommendations			Comments
				Days Delivered			Evaluation	Testing	1	2	3	
<b>Core Financial Systems</b>	Main Accounting	Audits previously given Full Assurance: the audit will cover the adequacy and effectiveness of the Key Controls in place across the four areas. Other controls tested will include any new controls operating for the first time in 2015/16, any controls where there is perceived to be a weakness, and a judgmental sample of other controls in operation across the four areas.	21	5	January 2016	Planning Completed						
	Treasury Management, Cash & Bank											
	Accounts Receivable											
	Accounts Payable											

	Budgetary Control	To cover strategic approach to co-ordinating budgetary control, monitoring and reporting, and also testing a sample of departments.	8		Q4								
	Council Tax	Covering adequacy and effectiveness of controls including liabilities, billing, cash collection, recovery and accounting. CRSA to be applied.	8	3	November	WIP							
	NNDR	Covering adequacy and effectiveness of controls including Business Rate Retention Scheme, liabilities, billing, cash collection, recovery and accounting. CRSA to be applied.	8		Q4								
	Housing Benefit and Council Tax Support	Covering adequacy and effectiveness of controls including new claims, size criteria, benefit caps, amendments, backdated benefits, payments and reconciliations. CRSA to be applied.	10		Q4								
<b>Core Financial Systems Total</b>			<b>55</b>	<b>8</b>									
<b>Operational Risks</b>	Housing Repairs	Covering adequacy and effectiveness of controls over the management of planned and responsive repairs and the demonstration of value for money. The audit will also cover contract management arrangements in place.	12	12	September	Final	Substantial	Substantial	-	3	1		
	Parking	Covering adequacy and effectiveness of the controls in place over income collection for on street and off street parking. The audit will also cover contract management arrangements in place.	12	12	September	Final	Substantial	Substantial	-	2	1		



	Licensing	Covering adequacy and effectiveness of key controls over applications for and granting of licences and enforcement of those licences.	8	8	August	Final	Substantial	Substantial	-	3	1	
	Members' Training and Expenses	Covering adequacy and effectiveness of key controls over training and expenses following the elections.	8		Q4							
	Housing Lettings	Covering adequacy and effectiveness of key controls over the allocations process once properties are available to let.	10		Q4							
<b>Operational Risks Total</b>			<b>50</b>	<b>32</b>								
<b>Strategic Risks</b>	Regeneration	Project management assurance in respect of significant regeneration schemes and assurance over grant spending.	10	10	June	Final	Substantial	Substantial	-	2	4	
	Partnership Arrangements	Review the arrangements in place for joint strategic needs assessments and the changes in commissioning services and the controls in place for data and information sharing..	10		Q4							
	Health and Safety	Covering adequacy and effectiveness of controls over Health and Safety	7	0.5	Q4							

	Performance Management	Covering adequacy and effectiveness of controls in place regarding the performance management framework and progress in delivering strategic objectives.	10	10	October	Final	Full	Full	-	-	1	Also raised 1 System Improvement Opportunity
	Data Security	Covering adequacy and effectiveness of the Council's strategic approach to data security.	7		Q4							
<b>Strategic Risks Total</b>			<b>44</b>	<b>20.5</b>								
<b>Governance, Fraud &amp; other Assurance Methods</b>	Control Risk Self Assessment including the Corporate Governance Framework	The use of CRSA to provide assurance that managers understand their requirements and take ownership of their responsibilities. To be utilised on a number of the core financials and will be issued prior to fieldwork and used to scope the audit.	13	5	All							
	Counter Fraud	Internal Audit will continue to work with the Council in the development of a fraud risk register, the provision of fraud awareness training, pro-active fraud exercises, etc.	10	1	All							
	Continuous Auditing/Data Mining	Data analysis scripts will be written on which both identify anomalies as well as comparing the number of anomalies occurring on a period by period basis. Suggested areas of review are Payroll and Asset Management. part of the annual governance statement.	10		Q4							

	Benefits/Savings Realisation	To provide assurance that processes are in place to measure such initiatives. Suggested areas of review are the CSU and PAYE/VAT health checks.	10		Q4								
<b>Governance, Fraud &amp; other Assurance Methods</b>			<b>43</b>	<b>6</b>									
ICT	PCI DSS	The specific scope will be agreed with management but would look to provide assurance over the information governance, customer data security and adherence to Caldicott.	20	20	August	Final	Full	Substantial	-	3	1		
	Digital Dacorum (Including CRM)	The specific scope will be agreed with management but would look to provide assurance over pre and post implementation reviews and focus on strength of controls.	10		Q4								
<b>ICT total</b>			<b>30</b>	<b>20</b>									
Other	Follow-up of Recommendations	Follow-up of all priority 1 and 2 recommendations made in final reports issued.	10	6									
	Management (including Audit Committee Training)		25	16									
	Ad Hoc	Contingency allocation to be utilised upon agreement of the Assistant Director (Finance & Resources).  Risk Management Workshops  Right to Buy	30	10	October	Final	Substantial	Limited	1	2	2		
<b>Other total</b>			<b>65</b>	<b>32</b>									
<b>TOTAL</b>			<b>287</b>	<b>118.5</b>									

---

## Appendix 2 - Summary of Final Reports

Brief outlines of the work carried out, a summary of our key findings raised and the assurance opinions given in respect of the final reports issued since the last meeting of the Audit Committee are provided in this section.

### Licensing (2015/16)

Our audit of DBC’s internal controls operating over Licensing found that 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. Also, 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
Substantial	Substantial

We have raised three priority 2 and one priority 3 recommendation where we believe there is scope for improvement within the control environment. These are set out below:

- The Licensing Team Leader should complete the review of the existing animal related application forms and once this has been completed they should be made available to applicants on the Council’s website. (Priority 3);
- A further action log event should be added to the procedures within the Flare system for; Animal Boarding, Licensed Premises Gambling Machines and Piercing which requires the Licensing Team Leader to approve before the License is granted. (Priority 2);
- The Licensing Team Leader should be provided with the appropriate training to be able to increase the functionality in the Licensing application action logs to facilitate an approval function. (Priority 2); and
- The Licensing Team Leader should be provided with the appropriate training to be able to increase the functionality in the Licensing application action logs to facilitate an approval function. (Priority 2).

---

**Performance Management (2015/16)**

Our audit of the Council's internal controls operating over Performance Management found that there is a sound system of internal control designed to achieve the system objectives. However, 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

We have raised one priority 3 recommendation and 1 System Improvement Opportunity where we believe there is scope for improvement within the control environment. These are set out below:

- Performance Indicators should be reviewed during the financial year to ensure that they continue to be appropriate and fit for purpose. (Priority 3)
- Officers who are responsible for under performing indicators within individual service lines should attend a Performance Clinic so that appropriate action can be taken to improve performance. The outcomes of the performance clinic should be recorded. (System Improvement Opportunity).

---

**Parking (2015/16)**

Our audit of the Council’s internal controls operating over Parking found 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.

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
Substantial	Substantial

We have raised two priority 2 and one priority 3 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- Prior to the parking enforcement contract end date of 2018, consideration should be given to determining the requirements to be included in the new contract. (Priority 2)
- Monthly invoices should be checked against expected annual contract value as detailed in the purchase order. (Priority 2)
- Contract monitoring meetings should be held on a monthly basis as per the contract agreement. (Priority 3)

---

**Right to Buy (2015/16)**

Our audit of the Council’s internal controls operating over Right to Buy found that whilst there is a basically sound system of internal control design, there are weaknesses in design which may put some of the system objectives at risk. The level of non-compliance puts 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
Substantial	Limited

We have raised one Priority 1 recommendation, two Priority 2, and two Priority 3 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- Detailed operating procedures for the Right to Buy process should be developed. (Priority 2).
- Identity and Tenancy checks should be completed consistently (Priority 1).
- Anti Money Laundering policy should be updated to reflect Right to Buy processes (Priority 2).
- A secondary check on the Discount Value calculation included in the Offer Letter should take place to confirm accuracy (Priority 3).
- Detailed records relating to the Right to Buy Process should be maintained (Priority 3).

**PCI - DSS (2015/16)**

Our audit of DBC’s internal controls operating in respect of the 2015 Payment Card Industry Data Security Standard (PCI DSS) ver 3.1 found that there is a sound system of internal control designed to achieve the system objectives. Also, 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

We have raised three priority 2 and one priority 3 recommendation where we believe there is scope for improvement within the PCI-DSS control environment. These are set out below:

- Secure Socket Layer - All and any existing use of SSL and/or early TLS must have a formal Risk Mitigation and Migration Plan in place. (Priority 2).
- Vulnerability patch management – Appropriate key performance indicators and vulnerability compliance monitoring reports should be established and applied.(Priority 2).
- Compliance verification checks on all Point of Sale device assets.(Priority 2).
- CAPITA Services PCI DSS compliance verification status documentation. (Priority 3).

**Housing Repairs (2015/16)**

Our audit of the Council’s internal controls operating over Housing Repairs found 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.

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
Substantial	Substantial

We have raised three priority 2 and one priority 3 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- Policy and Procedure documentation should be reviewed and updated on a regular basis. (Priority 3).
- Where repairs are the responsibility of the tenant, a process should be in place to recharge the cost of the repairs to the tenant. (Priority 2)
- The council should raise the issue of the quality of information maintained by Osborne Property Services at contract monitoring meetings. (Priority 2).
- The Council should maintain, and provide to the contractor, a list of all eligible properties under the five year rolling plan for two room redecorations. (Priority 2).



## Appendix 3 – Follow-up of Recommendations 2015/16

A follow-up audit has been undertaken in accordance with the 2015/16 audit plan. The objective was to confirm the extent to which the recommendations made in 2015/16 internal audit final reports have been implemented.

The tables below provide a summary of the status of all 2015/16 recommendations where the proposed implementation date was at or before 30th November 2015 and had not been reported as implemented at the previous Audit Committee meeting.

Title	Raised	Implemented	Partly Implemented	Outstanding	No longer relevant	Original Due Date	Revised Due Date	No Response	Not yet due	Resp. Officer
Performance Management	1					Jan 2016			1	Rob Smyth
Regeneration	6	6								Chris Taylor
Licensing	4					Dec 2015/ Mar 2016			4	Ross Hill
Parking	3					Jan/Mar /Apr 2016			3	Nick Brown/ Steve Barnes
Right to Buy	5								5	Richard Baker/ Andy Vincent
PCI-DSS	4									
Housing Repairs	4					Jan – Apr 2016			4	
<b>Total</b>	<b>27</b>	<b>6</b>								

### 2014/15 Recommendations

Three recommendations from 2014/15 remain partly implemented

#### Customer Services

**Recommendation:** Comprehensive failure demand data should be analysed to identify where Council resources are best focused to resolve problems.

**Management Update:** We are currently in negotiation with Northgate in relation to the wider roll out of the CRM provision across the Council. Once the CRM has been fully implemented and the benefits of the Digital Dacorum projects are fully realised it is envisaged that this will reduce the number of failure demands and will make it much easier to understand the root causes and rectify them. We agree that this recommendation is still partially implemented until the wider CRM provision is in place.

---

Trees and Woodlands

**Recommendation:** Consideration should be given to the viability of a direct electronic link between the EzyTreev and Agresso system to allow for direct data transfer.

**Recommendation:** In the absence of a direct interface a monthly reconciliation between the EzyTreev system and Agresso should take place. This should be signed and dated by the officer who carried out the reconciliation and verified by an independent officer.

**Management Update:** Group Manager (Environmental Services) to speak with ICT to determine whether the two systems can be linked and if not whether Ezytreev can provide both requirements.

---

## Appendix 4 - 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**

**December 2015**

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, and 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.

