



## **DACORUM BOROUGH COUNCIL**

## **INTERNAL AUDIT PROGRESS REPORT**

## **Audit Committee – February 10 2016**

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## Introduction

This progress report to the Audit Committee covers the work carried out during the period April 1<sup>st</sup> 2015 to January 2016 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 report:

- Council Tax (Evaluation Assurance: **Substantial**. Testing assurance: **Full**).

## 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 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	28	11	39%	13	46%
2014/15	39	36	92%	39	100%
<b>Total</b>	<b>67</b>	<b>47</b>	<b>70%</b>	<b>52</b>	<b>78%</b>

Appendix 3 provides a summary of the status of all 2015/16 recommendations where the proposed implementation date was at or before 29<sup>th</sup> January 2016.

## 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 no Priority 1 recommendations in the final reports issued since the last Audit Committee meeting.

# 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	15	January 2016	WIP						
	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		March								
	Council Tax	Covering adequacy and effectiveness of controls including liabilities, billing, cash collection, recovery and accounting. CRSA to be applied.	8	8	November	Final	Substantial	Full	-	1	-		
	NNDR	Covering adequacy and effectiveness of controls including Business Rate Retention Scheme, liabilities, billing, cash collection, recovery and accounting. CRSA to be applied.	8	3	WIP								
	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		March								
<b>Core Financial Systems Total</b>			<b>55</b>	<b>26</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	6	January	WIP						
	Housing Lettings	Covering adequacy and effectiveness of key controls over the allocations process once properties are available to let.	10		March							
<b>Operational Risks Total</b>			<b>50</b>	<b>38</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		March							
	Health and Safety	Covering adequacy and effectiveness of controls over Health and Safety	7	4	February	WIP						

	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	4	February	WIP						
<b>Strategic Risks Total</b>			<b>44</b>	<b>28</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	8	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		March								To be included in the Budgetary Control audit
<b>Governance, Fraud &amp; other Assurance Methods</b>			<b>43</b>	<b>9</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	10									
	Management (including Audit Committee Training)		25	18									
	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>38</b>									
<b>TOTAL</b>			<b>287</b>	<b>159</b>									

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## 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.

### Council Tax (2015/16)

Our audit of DBC's internal controls operating over Council Tax 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. The controls are being consistently applied.

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	Full

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

- A monthly report should be produced and analysed from the Northgate system showing all payments made into closed accounts. Payments made to closed accounts should then be investigated and allocated to the correct account. This is an attempt to increase the speed that transfers of credit can be made.
- A sample of refunds should be assessed each quarter in order to monitor that refunds are being processed in a timely manner. (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 29th January 2016 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	1								Rob Smyth
Regeneration	6	6								Chris Taylor
Licensing	4	1	1			Dec 2015/ Mar 2016			2	Ross Hill
Parking	3	1				Jan/Mar /Apr 2016			2	Nick Brown/ Steve Barnes
Right to Buy	5	1				Dec 2015 Jan/Mar 2016			4	Richard Baker/ Andy Vincent/ Chris Baker
PCI-DSS	4	1	1			Dec 2015 Jan/Mar 2016			2	John Worts
Housing Repairs	4					Jan – Apr 2016			4	Fiona Williamson
Council Tax	1								1	Chris Baker
<b>Total</b>	<b>28</b>	<b>11</b>	<b>2</b>						<b>15</b>	

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## 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) confirmed that these recommendations are not yet implemented.

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## 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**

**January 2016**

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