MAZARS

DACORUM BOROUGH COUNCIL

INTERNAL AUDIT PROGRESS REPORT

Audit Committee – April 2016

CONTENTS

Introduction

This progress report to the Audit Committee covers the work carried out during the period April 1st 2015 to 31st March 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 has progressed well and audit coverage has been in line with the Plan, as shown in Appendix 1.

We have issued the following Final reports:

- NNDR (Evaluation Assurance: **Full**. Testing Assurance: **Substantial**).

- Health and Safety (Evaluation Assurance: **Full**. Testing Assurance: **Substantial**).

- Core Finanical Systems (Evaluation Assurance: **Full**. Testing Assurance: **Substantial**).

- Data Security (Evaluation Assurance: **Full**. Testing Assurance: **Substantial**).

- Housing Benefits and Council Tax Support (Evaluation Assurance: **Full**. Testing Assurance: **Substantial**).

- Members' Training and Expenses (Evaluation Assurance: **Substantial**. Testing Assurance: **Substantial**).

- Budgetary Control (Evaluation Assurance: **Full**. Testing Assurance: **Full**).

Other Work:

Assurance Framework

We have supported the Council in the development of its draft Assurance Framework and will continue this support 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.

A selection of Key Questions in the framework, encompassing the full spectrum of departments, was chosen for sample testing to confirm compliance. We have identified the key evidence required to support the statements made, and confirmed that this is available. A sample of 24 Key Questions were chosen across all areas. In all 24 cases evidence was available to confirm compliance.

In future years management will need to update the evidence trail and this will continue to be reviewed by Internal Audit.

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	53	19	36%	21	40%
2014/15	39	36	92%	37	95%
Total	**92**	**55**	**60%**	**58**	**63%**

Appendix 3 provides a summary of the status of all 2015/16 recommendations where the proposed implementation date was at or before 31st March 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
Full	F	There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial	S	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	L	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	N	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.

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	Days Delivered	Start of Fieldwork	Status	Opinion		Recommendations			Comments
							Evaluation	Testing	1	2	3	
Core Financial Systems	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	21	January	Final	Full	Substantial*	-	-	3	Also raised 1 System Improvement Opportunity *see page 11 for further information re testing opinion
	Treasury Management, Cash & Bank											
	Accounts Receivable											
	Accounts Payable											

Category	Audit	Description			Month							Notes
	Budgetary Control	To cover strategic approach to co-ordinating budgetary control, monitoring and reporting, and also testing a sample of departments.	12	12	March	Final	Full	Full	-	-	-	Audit included additional days to cover savings realisation
	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	8	February	Final	Full	Substantial	-	1	3	
	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	10	March	Final	Full	Substantial	-	2	1	
Core Financial Systems Total			**59**	**59**								
Operational Risks	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	

6

	Audit Area	Description										Comments
	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	8	January	Final	Substantial	Substantial	-	1	4	
	Housing Lettings	Covering adequacy and effectiveness of key controls over the allocations process once properties are available to let.	10									Deferred due to proactive fraud work in this area.
Operational Risks Total			**50**	**40**								
Strategic Risks	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	1	April							Deferred at request of Group Manager – start date confirmed as 25th April
	Health and Safety	Covering adequacy and effectiveness of controls over Health and Safety	7	7	February	Final	Full	Substantial	-	3	2	

Category	Audit	Description										
	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	7	February	Final	Full	Substantial	-	2	3	
Strategic Risks Total			**44**	**35**								
Governance, Fraud & other Assurance Methods	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	13	All	Complete						
	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	9	All	WIP						
	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.	10	-	Q4							Not carried out this year

	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.	-	-								To be included in the Budgetary Control audit
Governance, Fraud & other Assurance Methods			33	22								
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									Carried forward into the 16/17 plan
ICT total			30	20								
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)		25	25								
	Ad Hoc	Contingency allocation to be utilised upon agreement of the Assistant Director (Finance & Resources). Risk Management Workshops Right to Buy Crematorium Business Case	36	1 10 2	October March	Final WIP	Substantial	Limited	1	2	2	
Other total			71	48								
TOTAL			287	224								

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.

NNDR (2015/16)

Our audit of the Council's internal controls operating over NNDR found 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	Substantial

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

- Where all options to investigate long standing suspense account items have been exhausted, the balances within the NNDR suspense account should be reviewed by finance and appropriate remedial action taken (Priority 3).
- All applications for empty property relief should be validated by inspection (or other applicable method) and evidence of this retained on file (Priority 2).
- All updates to debt recovery cases should be included in the case notes on Northgate (Priority 3).
- All authorisation documentation, or a link to where the documentation is stored, for write-offs should be stored as part of the account notes on the Info@Work system (Priority 3).

Health and Safety (2015/16)

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	Substantial

We have raised three Priority 2 and two 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).
- Team leaders, group managers and the Corporate Health and Safety Lead Officer's roles and responsibilities should be clearly defined and communicated to all relevant staff (Priority 2).
- The mandatory health and safety course should be completed by all staff and refresher courses should be offered to staff. (Priority 2).
- Risk assessments should be completed by all Services (Priority 2).
- A co-ordinated reporting mechanism should be in place for HSE accident reporting (Priority 3).

Core Financial Systems (2015/16)

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	Substantial

We have raised one Priority 2 recommendation and two Priority 3 recommendations where we believe there is scope for improvement within the control environment. We have also raised one Systems Improvement Opportunity. We also identified that 44 officers had access to amend the supplier master file, this was deemed as unsecure. Access was subsequently addressed during the audit and reduced to seven officers. As this was implemented during the audit a recommendation has not been raised. The recommendations raised have been set out below:

- There should be a clear audit trail for the good receipting of payments on Agresso (Priority 3)
- Procedure Documentation should include dated version control Priority 3)
- New user authorisation should be submitted to the Agresso Systems Administrator (Priority 3)
- There should be a process update for the checking and verification process for amendments to supplier data (SIO)

Our Core Financial Systems audit in 2015/16 covered the key controls in place in the areas of Accounts Receivable, Accounts Payable, Main Accounting and Treasury Management as these had been "Full Assurance" audits in 2014/15.

The table below sets out where the recommendations were raised in each area, and our Annual Report will report three Full/Full assessments for Accounts Receivable, Main Accounting and Treasury Management, with a Full/Substantial Assessment for Main Accounting.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Accounts Receivable	✓	✓	
Accounts Payable	✓	≈	Recommendation 1 Recommendation 2 Systems Improvement Opportunity
Main Accounting	✓	✓	Recommendation 3
Treasury Management	✓	✓	

Data Security (2015/16)

Our audit of the Council's internal controls operating over Data Security found that there is a sound system of internal control designed to achieve the system objectives. There is also 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 four Priority 2 recommendations and one Priority 3 recommendation where we believe there is scope for improvement within the control environment. The recommendations raised have been set out below:

- Staff should receive mandatory refresher training periodically (Priority 2)
- Non-Attendance of Training should be followed up with the relevant Group Manager (Priority 2)
- Council should increase staff awareness relating to information security (Priority 3)
- Officers should collect sensitive documents at the time of printing (Priority 2)
- Officer should not leave workstations logged in when unattended (Priority 2)

Housing Benefit and Council Tax Support (2015/16)

Our audit of the Council's internal controls operating over Housing Benefit and Council Tax Support 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	Substantial

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

- The Local Authority should ensure that all awarded Discretionary Payments are paid to Claimants. (Priority 2).
- The Backdate Decision Recommendation form should be, consistently, fully completed; including an explicit decision as to authorise, or not authorise, the payment (Priority 3).
- Structured Fraud Awareness Training Notes / Slides should be developed (Priority 2).

Members' Training and Expenses (2015/16)

Our audit of the Council's internal controls operating over Members' Training and Expenses 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. 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 one Priority 2 recommendation and four Priority 3 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- Evidence of the decision to retain the allowances by the Leader of the Council should be retained. (Priority 3)
- Office expense claims should be clearly stated in the Members' Allowances Scheme. (Priority 3)
- Members should be encouraged to attend training sessions throughout the year. (Priority 3)
- Claim forms should be authorised by the Group Manager for Democratic Services or an appointed officer, before they are processed by payroll. (Priority 2)
- Democratic services should ensure that expense claims match to attendance records. (Priority 3)

Budgetary Control (2015/16)

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

No recommendations were raised as a result of our work in this area.

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 31st March 2016 and had not been reported as implemented at the previous Audit Committee meeting.

Title	Raised	Implem ented	Partly Impleme nted	Outsta nding	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		2					Ross Hill
Parking	3	2				Apr 2016			1	Nick Brown/ Steve Barnes
Right to Buy	5	4	1							Richard Baker/ Andy Vincent/ Chris Baker
PCI-DSS	4	4								John Worts
Housing Repairs	4	1				Apr 2016			3	Fiona Williamson
Council Tax	1					Apr 2016			1	Chris Baker
NNDR	4								4	Chris Baker
Health & Safety	5								5	Chris Troy
Core Finacial Systems	3								3	Richard Baker

Data Security	5									5	John Worts
Housing Benefit & CTS	3									3	Chris Baker
Member's Training & Expenses	5									5	Jim Doyle
Total	**53**	**19**	**2**		**2**					**30**	

2014/15 Recommendations

Three recommendations from 2014/15 remained partly implemented following the last Committee.

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, this is likely to be during 2016/17.

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 will not be implemented. The CSG team (including Trees and Woodlands) were subjected recently to scrutiny by external consultants; a number of further recommendations were made. The viability of recommendations raised may require revision when considering the recent recommendations raised and not in isolation.

Internal Audit will therefore class these recommendations as "no longer relevant".

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

April 2016

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.