



Email: committeeservices@horsham.gov.uk
Direct line: 01403 215465

Audit Committee

Wednesday, 1st April, 2020 at 5.30 pm
Conference Room, Parkside, Chart Way, Horsham

Councillors: Stuart Ritchie (Chairman)

Tony Bevis
John Blackall
Paul Clarke

Ruth Fletcher
Richard Landeryou
Jack Saheid

You are summoned to the meeting to transact the following business

Glen Chipp
Chief Executive

Following the Government's decision to ask public venues to shut, Horsham District Council's office at Parkside has closed until further notice. Council meetings that are going ahead will do so with Councillors participating via remote video links and the public via an audio link.

Agenda

	Page No.
1. Appointment of Vice Chairman To appoint a Vice Chairman of the Committee for the rest of the Municipal year	
2. Apologies for absence To receive apologies for absence.	
3. Minutes To approve as correct the minutes of the meeting held on 18 th December 2019. <i>(Note: If any Member wishes to propose an amendment to the minutes they should submit this in writing to committeeservices@horsham.gov.uk at least 24 hours before the meeting. Where applicable, the audio recording of the meeting will be checked to ensure the accuracy of the proposed amendment.)</i>	3 - 6
4. Declarations of Members' Interests To receive any declarations of interest from Members of the Committee	
5. Announcements	

To receive any announcements from the Chairman of the Committee or the Chief Executive

6. **To agree the dates of meetings in 2020/21 as follows:**
To agree the following meetings dates for the municipal year 2020/21:
15th July 2020; 30th September 2020; 16th December 2020 and 14th April 2021.
7. **External Audit Progress Report** 7 - 12
To receive a report from the External Auditors.
8. **Risk Management - Quarterly Update** 13 - 24
To receive a report from the Director of Corporate Resources.
9. **Annual governance statement** 25 - 46
To receive a report from the Director of Corporate Resources.
10. **Internal Audit Progress Report - Quarter 3 (01/09/19 to 31/12/19)** 47 - 62
To receive the report of the Horsham Chief Internal Auditor
11. **Internal Audit Strategy 2020/21 and Annual Plan** 63 - 84
To receive the report of the Horsham Chief Internal Auditor
12. **Urgent Business**
Items not on the agenda which the Chairman of the meeting is of the opinion should be considered as urgent because of the special circumstances

To consider the following exempt or confidential information
13. **Hop Oast - Cultural Compliance Audit** 85 - 104

Audit Committee
18 DECEMBER 2019

Present: Councillors: Stuart Ritchie (Chairman), Tony Bevis, John Blackall,
Paul Clarke, Ruth Fletcher and Jack Saheid

Also Present: Director of Corporate Resources
Director of Community Services
Head of Finance
Chief Internal Auditor
Head of Waste, Recycling, Street Scene and Fleet Services

AAG/24 **MINUTES**

The minutes of the meeting held on 9th October were approved as a correct record subject to an amendment to record that Councillor Bevis had given his apologies for the meeting.

AAG/25 **DECLARATIONS OF MEMBERS' INTERESTS**

There were no declarations of interest.

AAG/26 **ANNOUNCEMENTS**

There were no announcements.

AAG/27 **INTERNAL AUDIT - QUARTERLY UPDATE REPORT**

The Chief Internal Auditor provided Members with the Quarterly update on Internal Audit for Quarter 2, July to September 2019.

Of the seven formal audits finalised during the quarter, one received an opinion of “minimal assurance”, three received an opinion of “partial assurance” and two received an opinion of “reasonable assurance”. An opinion was not given regarding Audit’s review of the Year of Culture as this was undertaken part way through the project.

There was a question from Members about whether mandatory training by officers had been completed. The Chief Internal Auditor said that it had.

There was a question from Members regarding whether leaving the EU would cause further problems for suppliers. The Director of Corporate Resources said that it was an unknown.

There were questions from Councillors regarding the extent of the risk of supplier business failure. The Director of Corporate Resources said it was rare. Property developers represented the highest risk. The Contract Management Supplier Resilience audit was intended to make managers think about the issue more.

All performance targets were assessed as on target.

RESOLVED
That the report be noted.

AAG/28 **RISK MANAGEMENT - QUARTERLY UPDATE**

The Director of Corporate Resources presented the Corporate Risk Register. She highlighted four risks currently considered to be high.

West Sussex were withdrawing recycling credits which were over £500,000. The Director of Corporate Resources noted that although the risk was a red risk, the budget had been anticipated and therefore it was actually planned for and covered in the budget.

With reference to CRR32, the Director of Corporate Resources explained that a recent ruling – NHS vs Derby City Council – regarding rate relief had ruled in favour of Derby City Council saying that the NHS was not a charity.

With reference to CRR01c the Director of Corporate Resources further noted in relation to business rates that Horsham District did not have huge businesses and Tesco was one of the biggest. Members also noted that there had been a loss in business rates when office buildings were converted to residential use.

With reference to CRR17, the Director explained that the Council Tax Reduction Scheme would not have to change in the light of the introduction of Universal Credit.

RESOLVED
That the Risk Management – Quarterly Report be noted.

AAG/29 **ANNUAL GOVERNANCE STATEMENT**

The Director of Corporate Resources presented the Annual Governance Statement – Review of Action Plan 2019/20. It provided a mid-year update on progress against the actions contained in the Annual Governance Statement. It was noted that there were a lot of completed items. It was noted that it was particularly pleasing that the Revenues and Benefits Disaster Recovery had been completed.

RESOLVED

That members of the Committee note the report.

AAG/30 **TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS MID YEAR REPORT**

Councillors received the Treasury Management Activity and Prudential Indicators mid-year report for the first half of 2019/20. It included some non-treasury indicators at the end as well. It presented information for the first six months of the financial year. The final report would be available in July 2020.

The discussion focussed on what the changes were and the reasons for the changes.

The Council had stayed within its limits and the benchmarks were within the parameters expected.

It was noted that some of the indicators would only be clear at the end of the financial year and not at the mid-point.

It was noted that it was good that the average vacancy levels were so low.

There was a discussion around unspent budgets.

RESOLVED

That the Committee recommend that the full Council approve the Treasury Management Strategy for 2020/21 and the associated limits and specific indicators included in section 4 and appendix B of the report.

That the committee recommend that the full Council approve the Investment Strategy for 2020/21 and the specific indicators included in section 5 and appendix C of the report.

AAG/31 **CAPITAL STRATEGY 2020/21**

Councillors received the Capital Strategy 2020/21 which was presented by the Group Accountant (Technical). The Strategy had to be developed following Government and CIPFA guidance. He explained that the Council set aside limits on what they could borrow and that there was a proposed change in the limits for registered providers but most limits were the same as for the previous year. Councillors commented that the Council chiefly invested in property.

RESOLVED

That the Committee approve the Capital Strategy and agree to the recommendations.

AAG/32 **AUDIT PLANNING REPORT**

The External Auditor was not present due to a change in the date of the meeting.

Members considered the Audit Planning Report for the year ended 31 March 2020. New risks identified were IFRS 16 which affected how leases were operated and Group Accounts because the Council had indicated that they had a wholly owned subsidiary in 2019/20.

The Chairman of the Committee did not agree with the way some of the performance indicators had been calculated, especially planning materiality at 2%.

RESOLVED

To discuss the planning materiality unit with the auditor at the next meeting of the Committee.

AAG/33 **URGENT BUSINESS**

There was no urgent business.

AAG/34 **HOP OAST DEPOT - CULTURAL COMPLIANCE AUDIT**

EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That, under Section 100A(2) of the Local Government Act 1972, the press and public be excluded from the meeting for the remainder of this item of business on the grounds that it involves the likely disclosure of exempt information, as detailed in Part 1 of Schedule 12A of the Act, by virtue of paragraph 3, and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

The meeting closed at 8.11 pm having commenced at 5.30 pm

CHAIRMAN

Horsham District Council

Audit Committee Progress Report

March 2020

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1. 2019/20 Audit	1
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1. 2019/20 Audit

Auditing planning update

Since our last report, we have completed our planning for the 2019/20 financial statements audit, and our value for money risk assessment. We have identified one additional significant risk and one further area of audit focus since our Audit Planning Report was presented in December 2019.

Additional Significant Risk: Valuation of retail property	
How has this risk arisen?	How will we address this risk?
<p>The Council holds a significant investment in retail property. The valuation of property is complex and subject to several assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.</p> <p>Difficulties in the retails sector have led to many retailers, including well-known names, closing stores, going into administration, or otherwise looking to reduce their rental costs by renegotiating existing leases.</p> <p>These difficulties have had a direct impact on the value of the retail units (high street shops, out of town retail parks and shopping centres) leased to retailers</p>	<p>As we have now identified the risk as significant we will instruct our own Property valuation team (EY Real Estates) to review a sample of retail property valuations performed by the Councils Valuer. Our valuer will;</p> <ul style="list-style-type: none"> • consider the competence, capability, and objectivity of the Council's valuers; • sample test key inputs used by the valuer(s) when producing valuations • challenge the assumptions used by the Council's valuers by reference to external evidence

Additional Area of Audit focus: Restatement on the Comprehensive Income and Expenditure Statement (CIES), Expenditure and Funding Analysis (EFA) and related disclosure notes	
How has this risk arisen?	How will we address this risk?
<p>Under CIPFA's "Telling the Story" agenda, the Council is required to disclose its income and expenditure in accordance with the structure used for internal reporting, rather than the previous presentation as prescribed by SERCOP.</p> <p>The Council has changed its internal reporting structure in 2019/20, which will mean the Comprehensive Income and Expenditure Statement, the supporting Expenditure and Funding Analysis, and related disclosure notes, will need to be restated in line with the new structure.</p>	<ul style="list-style-type: none"> • Agree the restated comparative figures back to the Council's prior year financial statements and supporting working paper • Review the analysis of how these figures are derived from the Council's ledger system and how overheads are apportioned across the service areas reported

These additional areas of work will result in a variation to the scale fee.

Interim visit progress

We are currently undertaking our interim visit in March 2020 and have made considerable progress in several areas. Notably we have progressed work in the following areas:

- Income and expenditure - we have sample tested months 1-9 of the Council's income and expenditure
- Payroll - we ran our payroll analytics programme over the month 1-9 data, this showed the posting pattern was in line with our expectations
- Additions and disposal - we sample tested key additions and disposal at year to date of our audit visit
- Property valuations - we are currently performing a detailed review of the key estimates the Council's intends to post in the 2019/20 financial statements
- IFRS 16 - we are currently reviewing the Council's impact assessment of IFRS 16 which is applicable for 2020/21 financial year.

We have not identified any issues which require your attention.

Calculation of our Planning Materiality in context of the public sector

Measurement basis

The measurement basis for determining materiality is a matter of professional judgment. The measurement base we believe to be most important to the users of the financial statements affects our decision. In the case of a public sector entity, the Financial Reporting Council *recommended practice - Practice note 10: audit of financial statements of public sector bodies in the United Kingdom* (PN10) states that legislators and regulators are often the primary users of its financial statements. Therefore, we consider these groups use of the financial statements when selecting our measurement basis for materiality.

We broadly categorise the measurement bases into three categories

- Earnings-based measures include pre-tax income; earnings before interest, taxes, depreciation, and amortization (EBITDA); and gross margin
- Activity-based measures include revenues and operating expenses
- Capital-based measures include equity and assets

The Financial Report Council's PN10 states the following:

'Gross expenditure or gross assets/liabilities may be more appropriate than profit or revenue as benchmarks for setting materiality for financial statements as a whole'

Our Global methodology sets out that gross expenditure, which is defined as all expenditure the Council incurs including Housing benefits, is the appropriate measurement basis for our Public Sector audits and is therefore used consistently across our Local Government audits. Annually, our Professional Practice Directorate (PPD) review this approach compared with other firms involved in the audit of Local Government. This review shows gross expenditure is used as the measurement basis for materiality consistently across the sector.

Determine the appropriate Percentage to apply to the measurement basis

Our methodology allows us to apply either a 0.5%, 1%, or 2% to the measurement basis to calculate our materiality. In determining which of the relevant percentage to apply, we consider both quantitative and qualitative aspects of the financial statements and have regard to items such as:

- The prior year's Audit opinion (Disclaimed, Qualified)
- The entities recent, current and medium-term financial sustainability
- The entities planned or actual proximity to any Financial Statements based performance metric
- Any unusual or contentious, planned or actual commercial activities
- Any relevant qualification of the Value for Money conclusion in the prior years
- Viability of the business, including level of available revenue reserves
- History of achieving financial performance against targets
- Positive outcomes from recent regulatory and other inspectorates' reviews
- Stable Business Environment, including no plans to restructure related Government or public sector functions
- Low public profile of the entity
- Minimal external financing (excluding PWLB), without unusual financing characteristics given the type of entity considered

Having assessed the above factors for Horsham District Council our professional judgement is 2% is the right percentage to apply to the measurement basis, which is consistent with our

judgement from all of the recent external audits undertaken by EY for HDC. We do not believe that there are any significant change in any of the factors that would change our judgement. Clearly if there were any, and our judgement was that the percentage would need to be lower, it would significantly increase the audit procedures required, and impact on both the timing and cost of the external audit.

Performance materiality

Performance materiality is used to apply our overall planning materiality to individual balances and disclosures in the financial statements.

We set performance materiality to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also use performance materiality as an estimate of undetected misstatements within the financial statements when we conclude on uncorrected misstatements.

Elements of our audit approach impacted by the determination of performance materiality include:

- Accounts we identify as significant
- Our sample sizes

We form an expectation as to the likelihood and size of misstatements when setting performance materiality. This judgment is informed by the scale and nature of errors found in the prior period, the entity's control environment, and any significant changes in circumstances in the current year.

When we can assess, with sufficient confidence, that detected misstatements will not exceed 25% of planning materiality, we may consider the likelihood of misstatements to be lower. When we are not able to do so, we consider the likelihood of misstatements to be higher. In the former circumstance, we are likely to set performance materiality at 75% of planning materiality. Where the expectation of errors is higher, we are likely to set performance materiality at 50% of planning materiality. Where prior year errors were concentrated in one area, rather than being pervasive to the accounts, we may consider setting overall performance materiality at 75% but using lower testing thresholds for the balances impacted by errors in the prior year, to ensure our work is sufficiently focused on areas of risk in the current year.

For Horsham District Council, performance materiality has been set at 75% for 2019-20. As noted in our Audit Plan (as updated by this progress report), lower testing thresholds will be applied in our testing of capital additions, Pensions and Property Valuations in recognition of risk identified in those areas of the accounts.

Trivial level

In addition to determining planning materiality and performance materiality, we determine an amount below which identified misstatements are considered clearly trivial. We would not normally require errors below this value to be corrected or report them to those charged with governance. However, we do generally report all errors identified to management, who will decide whether to correct these.

This measure is determined by EY policy and is set at 5% of planning materiality for all clients.

Report to Audit Committee

1st April 2020

By the Director of Corporate Resources

INFORMATION REPORT



**Horsham
District
Council**

Not Exempt

Risk Management - Quarterly Report

Executive Summary

This report includes an update on the Corporate Risk Register for consideration and provides an update on progress with the quarterly departmental risk register reviews.

Recommendations

That the Committee is recommended to:

- i) Note the contents of this report.

Reasons for Recommendations

As part of good governance, it is important that this document is considered by Members.

Background Papers

Covalent Performance Management System / Corporate Risk Register

Wards affected: All

Contact: Julie McKenzie, Project Assurance Manager 01403-215306

Background Information

1 Introduction and Background

- 1.1 The Audit Committee is charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.
- 1.2 The report provides details of key changes to the Council's Corporate Risk Register, and an update on progress regarding the departmental risk registers (see 3.1 and 3.2 below).

2 Relevant Council Policy

- 2.1 The Council's Risk Management Policy is detailed in the Council's Risk Management Toolkit. The Council's Risk Management Strategy is a component part of the Policy, and this document sets out to achieve the following objectives:
 - Fully integrate risk management into the culture of the Council and its strategic and service planning processes;
 - Ensure that the risk management framework is understood and that ownership and accountability for managing risks is clearly assigned;
 - Ensure the benefits of risk management are realised through maximising opportunities and minimising threats;
 - Ensure consistency throughout the Council in the management of risk.

3 Details

3.1 Corporate Risk Register

The Senior Leadership Team has reviewed the Corporate Risk Register and comments have been updated to reflect the current position for each risk (see Appendix 1).

The Corporate Risk profile is shown in the following heat map which shows the total number of risks in each segment. The red / amber / green zones are in accordance with the Council's risk appetite.

	CRR01c CRR02 CRR06 CRR18 CRR32 CRR33 CRR34	CRR01b CRR03 CRR19		CRR35
		CRR05 CRR30	CRR31	
			CRR17	

One new high risk has been added as follows:

CRR35	(i) The Council is unable to deliver statutory front line services to the community due to, for example, staff shortages or unavailability of key officers. (ii) Substantial financial loss to the Council.
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There are four other risks which are currently considered to be high and ten medium risks. The high risk area relates to the following:

CRR01b	Funding from Government is less generous than assumed in the Medium Term Financial Strategy (MTFS) from 2021
CRR03	The Council is found to have failed to fulfil its obligations under the Act in the event of a civil emergency.
CRR19	Uncertainty in the UK and World economy – impact on financial markets and sterling leading to recession
CRR31	Unavailability of key officers, inadequate processes (including risk assessments and election project plan) leading to failure (including legal challenge).

Please see the risk register in Appendix 1 which provides full details of all risks on the “live” register together with details of the control actions and responsible officers.

3.2 Departmental Risk Register

Departmental risk registers have been reviewed and updated.

4 Outcome of Consultations

4.1 Officers who are responsible for control actions and the Senior Leadership Team have been consulted in updating the Corporate Risk Register.

5 Other Courses of Action Considered but Rejected

5.1 Not applicable.

6 Financial Consequences

6.1 There are no financial consequences.

7 Legal Consequences

7.1 There are no legal consequences.

8 Staffing Consequences

8.1 There are no staffing consequences.

9 Risk Assessment

9.1 The report provides an update on the Council’s corporate risks and how these are being managed by the Senior Leadership Team. See Appendix 1 for the latest version of the Council’s Corporate Risk Register.

10 Other Considerations

10.1 Risk management encompasses all risks within the organisation, including strategic, operational, and project/change risks. This includes consideration of Crime & Disorder; Human Rights; Equality & Diversity; and Sustainability as appropriate.

Appendix 1 Corporate Risk Report March 2020

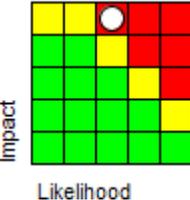
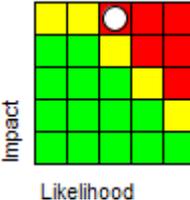
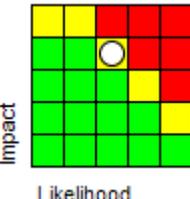
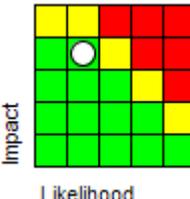
Risks ordered by RAG not numerically

Generated on: 18 March 2020



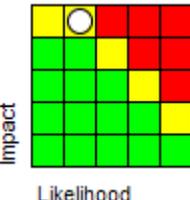
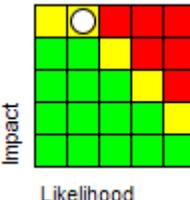
Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>CRR35 Cause: COVID-19 is a new illness that can affect your lungs and airways, and is caused by a virus called coronavirus. The illness is rapidly spreading, and people with underlying health conditions are at a higher risk of becoming very ill. This includes older adults, and/or people with chronic medical conditions such as heart disease; diabetes; and lung disease. Risk: (i) The Council is unable to deliver statutory front line services to the community due to, for example, staff shortages or unavailability of key officers. (ii) Substantial financial loss to the Council.</p>	<p>Failure of business objectives Health and safety Financial Service Delivery Compliance with regulations Reputation Staffing and culture</p>	<p>Glen Chipp</p>		<p>CRR.35.1 Essential services have been highlighted with the intention of redeployment of staff from other service areas. Staffing shortages on refuse collection may benefit from availability in the labour market.</p>	<p>Jane Eaton</p>		<p>New Risk</p>
				<p>CRR.35.2 Funding from Government</p>	<p>Jane Eaton</p>		
<p>CRR31 Cause: The success of the election process is dependent upon adequate staffing, effective equipment (including IT) and proper processes (a separate risk assessment is undertaken to support the process. Risk: Unavailability of key officers, inadequate processes (including risk assessments and election project plan) leading to failure (including legal challenge).</p>	<p>Election Petition (challenge through the courts). Election would need to be re-run - potential for significant financial & resource implications. Results of election delayed and associated reputation risk</p>	<p>Jane Eaton</p>		<p>CRR.31.1 Review risks as part of project planning process prior to an election</p>	<p>Sharon Evans</p>		<p>March 2020 update: An experienced Elections Manager has been appointed with handover period with the incumbent Elections Consultant. Corona Virus may have an impact on likelihood of the Police and Crime Commissioner elections taking place and availability of staff.</p>
				<p>CRR.31.2 Training of Internal & external staff</p>	<p>Sharon Evans</p>		
				<p>CRR.31.3 Review the adequacy of insurance cover for Returning Officers at the start of election process; ensure adequate protection against an Election Petition</p>	<p>Sharon Evans</p>		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>CRR01b Financial Cause: The Council is reliant on Central Controlled Government funding (e.g. Business Rates).</p> <p>Risk: (ii) Funding from Government is less generous than assumed in the MTFS from 2021</p>	<p>Reductions in funding</p> <p>Adverse effect on morale</p> <p>Financial</p> <p>Failure to achieve agreed objectives</p>	Jane Eaton		CRR.01b.1 Continue to keep a watching brief	Dominic Bradley		<p>March 2020 Update:</p> <p>Uncertainty beyond 2020, especially with regards to the localisation (75%) retention of business rates and changes from the fair funding review remains a significant area of concern. Government has consulted on both schemes. The Fair Funding consultation mentioned potentially using excess Parking service income in the funding calculations. This will be reviewed as information and guidance on how the business rates scheme will work and results from the fair funding review are released.</p> <p>Due to Government's focus on Brexit, this will not be available until the 2021/22 budget.</p> <p>An updated MTFS was presented to Members during the budget process in February 2020 which indicated near balanced budgets over the period if assumed decisions are made on Council Tax, garden waste and parking charges, alongside officer efficiencies, income generation and digital transformation.</p>
<p>CRR03 Legal Cause: The Civil Contingencies Act places a legal obligation upon the Council, with partners, to assess the risk of, plan, and exercise for emergencies, as well as undertaking emergency and business continuity management. The Council is also responsible for warning and informing the public in relation to emergencies, and for advising local businesses.</p> <p>Risk: The Council is found to have failed to fulfil its obligations under the Act in the event of a civil emergency.</p>	<p>People and businesses come to harm and suffer loss that might not otherwise have occurred</p> <p>Complaints / claims / litigation</p> <p>Resources consumed in defending claims</p>	Adam Chalmers		<p>CRR.03.1 Update corporate business continuity plan and regular review.</p> <p>CRR.03.2 Update departmental business continuity plans and regular review.</p> <p>CRR.03.5 Bitesize workshops in 2017 and 2018 to address new procedures and processes and all SLT and heads of service will be invited to attend.</p>	<p>Rob Jarvis</p> <p>Rob Jarvis</p> <p>Rob Jarvis</p>		<p>March 2020 Update:</p> <p>CRR.03.1: Corporate Business Continuity plan is current and due for review on 28/11/2020 (annual review). Cold sites still not identified and IT DR plan not yet completed and signed off.</p> <p>CRR.03.2: Departmental plans updated in December 2019 and currently being reviewed in response to COVID-19 epidemic.</p> <p>CRR.03.5 Awaiting release of SRF training and development programme for 2020 and will look to put senior management on BC training sessions.</p>

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
	Financial losses Censure by regulators Reputation damaged						Additional BC bite size training sessions and BC exercising to continue throughout 2020 to heads of service/departmental managers.
CRR19 Cause: Uncertainty in the UK and World economy. The Government has spoken about an additional 5% reduction in local government funding, and further cuts in years to come. Risk: The impact on the financial markets and the pound could bring forward the next recession and cause a slowdown in the housing market. This may result in a reduction in planning fees; reduced car parking income; increased homelessness; and increased housing benefit claims.	Financial Service Delivery Compliance with Regulations	Jane Eaton		CRR.19.2 Monitor the external environment	Dominic Bradley		<u>March 2020 Update:</u> The uncertain economic environment is being continually monitored and changes will be reported in any MTFS update and regular quarterly budget and performance monitoring to Overview and Scrutiny Committee. The Council is reviewing some areas of income generation activity, but are forecasting to end 2019/20 with more income than the budget contributing towards a small forecast surplus. HDC has published its Brexit plan and updates will be circulated to Members.
				CRR.19.3 Monitor internal indicators, particularly income generation and respond appropriately to adverse trends	Dominic Bradley		
CRR05 Governance Cause: Managers are responsible for ensuring that controls to mitigate risks are consistently applied. Risk: Officers are either unaware of expected controls or do not comply with control procedures.	Failure of business objectives Health & Safety Financial Service Delivery Compliance with Regulations Personal Privacy Infringement Reputation damage	Jane Eaton		CRR.05.1 Officer training	Jane Eaton		<u>March 2020 Update:</u> Improvement continues in depot based control following the "minimal assurance" cultural compliance audit. A new Resources Manager started this month with a focus in this area.
				CRR.05.3 All Service Managers required to sign an Assurance Statement. (By 30th June Annually) (Cyclical)	Jane Eaton		
				CRR.05.4 "Cultural compliance" Internal Audits identify service based issues and help managers to resolve these.	Jane Eaton		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>CRR17 Cause: The External Auditors audit the HDC Benefits Grant Subsidy return to the Department for Work and Pensions (DWP) on an annual basis to identify errors. Risk: The Benefit Subsidy claim may be qualified and/or financial losses. HDC has a case load with a particularly high number of working people with many changes of circumstances. Refer to new risk CRR25</p>	Financial Service Delivery Compliance with regulations Reputation	Jane Eaton		CRR.17.1 Continuously monitor the level of quality control checking.	Beccy Salmon		<p>March 2020 Update:</p> <p>This is an ongoing risk. The risk remains until Universal Credit comes in for all working age cases. Figures submitted for 2018/19 led to further 40+ checking as in previous years. There was no subsidy loss but the cost of the audit was higher than expected. The contract for 2019/20 was let in May 2019 but officers are looking for a more inclusive fee and other suppliers for the 2020/21 audit.</p>
<p>P CRR30 Cause: WSCC have proposed some cuts to their budgets on the September 2018 forward plan. Risk: Increase in costs of homelessness, housing services, recycling and transport</p>	Financial Service delivery in all services due to limited money	Glen Chipp		CRR.30.1 Work with other districts and voluntary organisations to seek ways to re-provide preventative services	Glen Chipp		<p>March 2020 Update:</p> <p>The recycling credits have been removed and the Housing cuts have been successfully mitigated. The impact of both items has been budgeted for. Risk is being kept in view given current economic circumstances.</p> <p>Note that WSCC is now charging HDC for ground floor meeting room bookings.</p>
				CRR.30.2 Provide evidence to county to inform their decision making	Glen Chipp		
				CRR.30.3 Task and finish group set up with representatives from across Districts and Boroughs to feed into process	Glen Chipp		
				CRR.30.4 Include on MTFS (Risk also relates to future cuts)	Glen Chipp		
				CRR.30.5 Services rated as amber are being redesigned with all District & Boroughs having a say in how these will be secured in the future	Glen Chipp		
<p>CRR01c Financial Cause: The Council is reliant on Central Controlled Government funding (e.g. Business Rates). Risk: (iii) Decrease in Rateable Value due to several large buildings being redeveloped and coming off the RV list, including Piries Place, Park North and North Point. This causes the Council to fall below the business</p>	Reductions in funding Financial	Jane Eaton		CRR.01c.1 Continue to keep a watching brief	Dominic Bradley		<p>March 2020 Update:</p> <p>The 2017 Rateable Value list has fallen by £0.7m since 1 April 2017. It has recovered from the lowest point of £2.1m over the last six months, as Piries Place and a new supermarket have come back onto the list.</p> <p>This overall 'trend' of being below the initial RV three years later remains a</p>

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
rates baseline, resulting in loss of funding.							significant concern and risk to the Council's funding position should it continue.
CRR02 Managerial / Professional Cause: The Council has a legal obligation to protect personal data. The Information Commissioners powers are much more far reaching when they change in May 2018. Risk 1: Major data breach or leak of sensitive information to a third party. Risk 2: Risk of significant ICO fine for non-compliance with new General Data Protection Regulations (GDPR).	People and businesses come to harm and suffer loss that might not otherwise have occurred Complaints / claims / litigation Resources consumed in defending claims Financial losses Fines from regulators Adverse publicity Reputation damage	Jane Eaton		CRR.02.1 Develop appropriate processes & procedures which underpin the IT Security Policy	Andrea Curson / Sharon Evans		<u>March 2020 Update:</u> CRR.02.1 This work is ongoing CRR02.3 The Head of Technology has recently completed Information Security Training. CRR02.4 PSN Accreditation obtained on 8th November 2019 for the year. CRR02.5 This is continuing and is ongoing.
				CRR.02.3 Provide a programme of Induction and at least annual training on Information Security to all staff.	Robert Laban		
				CRR.02.4 Annual PSN Accreditation	Andrea Curson		
				CRR.02.5 Representatives from each department meet every other month to maintain compliance, updates and training	Sharon Evans		
CRR06 Physical Cause: The Council is responsible for the health & safety of its clients, staff and other stakeholders, owns and maintains significant assets, and also has responsibility for H&S in some partner organisations where it does not have operational control. Risk: A health & safety failure occurs.	People come to harm Complaints/claims/ litigation Financial losses Censure by audit / inspection Reputation damage Adverse effect on morale Stress and absenteeism	Glen Chipp		CRR.06.2 Develop and implement a corporate inspection strategy (By 30/06/16).	Robert Laban / Health & Safety Officer		<u>March 2020 Update:</u> CRR.06.2: Completed • A self-inspections policy has been implemented and is being monitored by the H&S Forum. CRR.06.3 – Completed • H&S responsibilities are set out in the Corporate H&S Policy and H&S subject policies. • H&S Management Forum is responsible for implementing these policies and sharing best practice across the Council. • Team self-audits in place. • H&S Training matrix has been published.
				CRR.06.3 Clarity of responsibilities and implementation of a training programme	Robert Laban		
				CRR.06.4 Implement a central repository for risk assessments	Robert Laban / Health & Safety Officer		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
							<ul style="list-style-type: none"> E-learning courses for H&S key topics are accessible via Horsham LAB. <p>CRR.06.4: No change: the introduction of a central repository for risk assessments remains deferred until Technology One can be configured in this respect, or an alternative system can be developed/ purchased – assessments of suitability/ effective system is underway and is an agenda item for the H&S Management Forum until resolved.</p>
<p>CRR18 Technological Cause: Council services are increasingly reliant on IT systems at a time when there are greater opportunities for malicious attackers to exploit security weaknesses.</p> <p>Risk 1: A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems.</p> <p>Risk 2: IT not working due to environmental problems: fire, flood, power cut</p>	<p>Loss of key systems-disruption to Council services. Cost of investigation and recovery of systems. Fraud/theft. Loss of the integrity of Council Records. Penalties from the ICO. Adverse media coverage.</p>	Jane Eaton		<p>CRR.18.1 Staff and Member Training</p> <p>CRR.18.2 Awareness of current threats</p> <p>CRR.18.3 An effective ICT Service delivery team</p> <p>CRR.18.4 Effective patching and updates to mitigate known vulnerabilities</p> <p>CRR.18.5 Compliance with expected security standards. (PSN, PCI-DSS)</p> <p>CRR.18.6 Effective policies in place which outline security requirements for users of ICT</p> <p>CRR.18.7 Effective back-up and recovery processes in place for Council ICT systems.</p> <p>CRR.18.8 Transferring the risks to the cloud provider</p> <p>CRR.18.9 LGA Cyber Security review plan developed, approved internally and being carried out.</p>	<p>Claire Ward / Robert Laban</p> <p>Andrea Curson</p>		<p>March 2020 Update:</p> <p>Level of attack, particularly Ransomware attacks has been raised by the Cabinet Office. Remediation ongoing.</p> <p>CRR.18.1 IT Security Training has been rolled out to all staff and the IT Security Officer is reviewing this training.</p> <p>CRR.18.2 This work is ongoing.</p> <p>CRR.18.3 All work is ongoing.</p> <p>CRR.18.4 Patching of devices ongoing.</p> <p>CRR.18.5 PSN Accreditation</p>

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>CRR32 Cause: Nationally, NHS Foundation Trusts (and some NHS Trusts) have applied for mandatory charitable relief on their business rates, on the basis that they should be treated as charities. Risk: Decrease in Rateable Value, and potentially backdated refunds to 2010.</p>	Reductions in funding Financial	Jane Eaton		CRR.32.1 Continue to keep a watching brief	Dominic Bradley		<p>March 2020 Update:</p> <p>A High Court judicial review dismissed the hearing in November 2019. The claimants have appealed to the Court of Appeal. The date of the appeal hearing has not yet been set.</p> <p>One NHS Foundation Trust appeal in the district has been received and was included in the business rates appeals provision at 31 March 2019.</p> <p>No separate provision has been created for appeals that have not yet been received.</p>
<p>CRR33 TO BE EXEMPTED Cause: Compensation claim received from L&Q (Landlord of adjacent buildings) in relation to new Piries Place car park works. Risk: Potential litigation action from L&Q in relation to Piries Place car park project. Larger sums being claimed than anticipated</p>	Financial Reputation	Barbara Childs		CRR.33.1 Claim is being investigated by HDC Legal	Sharon Evans		<p>March 2020 Update:</p> <p>Ongoing.</p>
<p>CRR34 Cause: Uncertainty in the UK and World economy. Instability and recent high profile failures, e.g. Carillion Risk: Key contractor failure</p>	Financial	Jane Eaton		<p>CRR.34.1 Regularly check accounts of key suppliers</p> <p>CRR.34.2 Check public liability insurance of key suppliers</p> <p>CRR.34.3 Ask for key suppliers' business continuity plans</p> <p>CRR.34.4 Consider whether the failure of a key supplier needs to go in service business continuity plan</p>	<p>Heads of Service</p> <p>Heads of Service</p> <p>Heads of Service</p> <p>Heads of Service</p>		<p>March 2020 Update:</p> <p>Contract Management training in January reminded officers of the need for regular checks of accounts, insurance and business continuity plans.</p>

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Report to Audit Committee

1st April 2020

By the Director of Corporate Resources

INFORMATION REPORT

Not exempt



Draft Annual Governance Statement 2019/2020

Executive Summary

The annual review of the Council's governance, risk management and internal control arrangements has been undertaken to support the production of the Annual Governance Statement for 2019/2020. This review included information and assurance gathering processes to ensure that the published Annual Governance Statement is correct as well as a review of the Council's Governance framework against the best practice framework devised by CIPFA/SOLACE.

The aim of the review process is to ensure that the Council has effective governance, risk management and internal control processes in place to assist with accountability and the delivery of objectives. Additionally, the review process has identified any shortfalls in these arrangements to enable them to be addressed.

Recommendations

That the Committee is recommended:

- i) To approve the draft Annual Governance Statement for 2019/2020.

Reasons for Recommendations

- i) As part of good governance, it is important that the Annual Governance Statement is approved by the Audit Committee

Background Papers: Supporting evidence, Head of Service Assurance Statements, and the Annual Internal Audit Report.

Consultation: The Senior Leadership Team, Monitoring Officer, Head of Housing and Community Services, Head of Leisure and Culture, Head of Finance, Head of HR & OD, Head of Technology Services and the Chief Internal Auditor.

Wards affected: All

Contact: Julie McKenzie Project Assurance Manager, 01403-215306

Attachments:

- Appendix A: Annual Governance Statement 2019/2020
- Appendix B: Local Code of Corporate Governance
- Appendix C: Governance Assurance Framework
- Appendix D: AGS Action Plan 2019/2020
- Appendix E: AGS Action Plan 2020/2021

Background Information

1 Introduction and Background

- 1.1 The Accounts and Audit (England) Regulations 2015 require the Council to review, at least annually, the effectiveness of its governance arrangements and publish an Annual Governance Statement.
- 1.2 Senior officers have been consulted and supporting documentation has been updated to reflect the current position.

2 Relevant Council Policy

The Audit Committee is responsible for approving the Annual Governance Statement in accordance with the Committee's terms of reference.

3 Details

- 3.1 The Annual Governance Statement for 2019/2020 is attached in Appendix A.

4 Next Steps

- 4.1 The Committee is asked to approve the final version of the Annual Governance Statement at the July meeting.

5 Outcome of Consultations

- 5.1 Key officers have been consulted when compiling the Annual Governance Statement, including the Senior Leadership Team; Monitoring Officer; Head of Housing and Community Services; Head of Leisure and Culture; Head of Finance; Head of Human Resources and Organisational Development; and the Chief Internal Auditor. In addition, Heads of Service have completed and signed Annual Assurance Statements covering their areas of responsibility.

6 Other Courses of Action Considered but Rejected

- 6.1 None.

7 Resource Consequences

- 7.1 There are no direct staffing consequences arising from this report.

8 Legal Consequences

- 8.1 Regulation 6 of The Accounts and Audit (England) Regulations 2015 requires that:-

6.—(1) A relevant authority must, each financial year—

- (a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and
- (b) prepare an annual governance statement;

(2) If the relevant authority referred to in paragraph (1) is a Category 1 authority, following the review, it must—

(a) consider the findings of the review required by paragraph (1)(a)—

(i) by a committee; or

(ii) by members of the authority meeting as a whole; and

(b) approve the annual governance statement prepared in accordance with paragraph (1)(b) by resolution of—

(i) a committee; or

(ii) members of the authority meeting as a whole.

8.2 In 2016 CIPFA/SOLACE published a revised framework for Corporate Governance: "Delivering Good Governance in Local Government Framework". This framework provides a useful and practical update and follows seven core principles of good governance. The Framework urges local authorities to review and report on the effectiveness of the governance arrangements.

9 Risk Assessment

9.1 There are no risks associated with this report.

10 Other Considerations

10.1 This report has no effect on Crime & Disorder; Human Rights; Equality & Diversity or Sustainability.

Horsham District Council Annual Governance Statement 2019 - 2020

1. SCOPE OF RESPONSIBILITY

Horsham District Council is responsible for ensuring that its business is conducted in accordance with the law, regulations and proper standards, and that public money is safeguarded from waste, extravagance or misappropriation. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness in the exercise of its responsibilities.

Horsham District Council approved and adopted a Local Code of Corporate Governance on 22 March 2017 which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA), and Society of Local Authority Chief Executives (SOLACE) Framework for Delivering Good Governance in Local Government. A copy of the Local Code is available on our website or can be obtained from the Council offices. This statement explains how Horsham District Council has complied with the Code and also meets the requirements of the Accounts and Audit (England) regulations 2015 in particular regulation 6(1)(b), which requires all relevant bodies to prepare an Annual Governance Statement.

2. THE GOVERNANCE ASSURANCE FRAMEWORK

The Governance Assurance Framework has been in place at Horsham District Council for the year ended 31 March 2020 and up to the date of the approval of the Annual Report and Statement of Accounts for the 2019/20 financial year.

The Council's Governance Framework encompasses the way the Council is controlled and managed, both strategically and operationally, and how it will deliver its services. The structures and processes, risk management and other internal control systems are in place to monitor and manage the delivery of the Council's aims and objectives:

The core principles of the Council's Governance Framework are set out below:

A: Integrity; Ethical Values; the Rule of Law.

B: Openness; engaging with institutional stakeholders; engaging with individual citizens and service users.

C: Defining Outcomes; sustainable, economic, social and environmental benefits.

D: Determining and planning interventions; optimising achievement of intended outcomes.

E: Developing the capacity of the entity through its leadership and other individuals.

F: Managing risks; managing performance; robust internal control; managing data; strong public financial management.

G: Good practice in transparency, reporting and audit to deliver effective accountability.

3. CORPORATE GOVERNANCE, VISION AND OBJECTIVES

The Corporate Governance Framework is aligned with the Council's Corporate Plan which outlines the Council's vision, aims and objectives. The current Corporate Plan was approved by Council on 12 February 2020 and covers the period 2019 - 2023.

- The Council aims to deliver high quality services that meet the needs of the local community. This is set out in the Council's Corporate Plan for Horsham which is the

core of the Council's purpose and vision and defines the Council's key priorities and strategic aims. This is formally reviewed and updated each year.

- The Corporate Plan is supported by the Medium-Term Financial Strategy and the Council's annual budget to ensure the implications on the Council's finances are considered when the objectives are set.
- Departmental strategies and annual service plans are developed which support the delivery of the Corporate Plan, by identifying how each department contributes to the delivery of the overall aims and objectives of the Council.
- The Council's Performance Management Framework includes key performance indicators associated with the Corporate Plan. Performance on a basket of key corporate indicators is reported to the Senior Leadership Team, the Cabinet Leads and to the Overview and Scrutiny Committee.
- Every report submitted to the Cabinet or regulatory committees must outline how the recommended action helps to achieve one or more of the Corporate Plan priorities.

4. MEMBERS AND OFFICERS WORKING TOGETHER

The Council's Constitution gives guidance on the roles and responsibilities of Members, the Chief Executive and Chief Officers. The Governance Committee leads on changes to the Constitution including the scheme of delegation.

The Leader, Cabinet Members, and Chairmen and Vice Chairmen of standing committees receive briefings from senior management on a regular basis and Members receive training as part of the induction process.

A review of governance arrangements at the Council was reported to Full Council on 27 April 2016. The Governance Review focused on ensuring Horsham District Council has the most suitable and effective governance arrangements. The Council continues to operate the Cabinet Executive Model supported by a number of Policy Development Advisory Groups. The process of undertaking this review has widened the collective knowledge and understanding amongst Members which has continued in 2018/19. The Governance Committee began a further review of the Constitution during 2018/19 with a particular focus on the effectiveness of planning decision making. This was reported to Council in April 2019. The operation of the Constitution is under constant review by the Monitoring Officer in consultation with the Governance Committee to ensure that its aims and principles are given full effect.

Cabinet Policy Development Advisory Groups meet periodically on significant areas of business to ensure there is engagement with back bench Councillors on strategic direction.

In March and April 2017, the Overview and Scrutiny Committee reviewed its effectiveness using the guidance from the Centre for Public Scrutiny. The outcome of this review was the Committee disbanded its standing sub-committees and agreed to establish up to three task and finish groups to review particular issues. In summer 2018 the Overview and Scrutiny Committee held a Task and Finish Group to review the success of its previous review. Arising from this in November 2018 the Overview and Scrutiny Committee agreed to establish three working groups: Finance and Performance; Business Improvement and Community, to review these areas in more detail prior to them coming to the overall Overview and Scrutiny Committee. The 2019/20 Overview and Scrutiny Committee overturned the November 2018 recommendations in June 2019. Arrangements for Overview and Scrutiny Committee operated with up to three Task and Finish Groups and no standing sub-committees during the year.

The Council invited in the LGA to carry out a Corporate Peer Challenge in November 2019. The Challenge report suggested a review of the roles of Policy Development Advisory Groups and Overview & Scrutiny take place to ensure there are no overlaps or conflicts. This will take place in 2020/21.

The Council participates in a number of partnerships with other local authorities. In particular Revenues and Benefits, Building Control, Internal Audit and Procurement. The Council, in agreement with its partners Adur and Worthing and Mid Sussex Councils, disbanded the ICT partnership in favour of local working combined with a move to the Cloud. From 1 April 2018 the Council purchases its revenues and benefits service from LGSS. For the latter part of 2019/20 the Procurement Partnership was expanded to include Mole Valley council on a one-year trial. The Council also engages in local community development work with other local public bodies.

5. VALUES AND HIGH STANDARDS OF BEHAVIOUR

The Council has incorporated in its Constitution a Member Code of Conduct and an Employee Code of Conduct. A register of declared interests is held for officers. All office-based officers are required to submit an annual declaration as well as all officers making declarations when needed. The extension of the officer requirement to all office-based officers was introduced in January 2020. Office based officers have now also been asked to declare second jobs and family relationships with other officers and members of the Council.

Members' Registers are available on the Council's website. Members are required to review their registers annually. Members are responsible for ensuring that if there are changes to their interests that the Monitoring Officer for the Council is notified of these changes. The Standards Committee promotes and maintains high standards of conduct by Councillors and also considers whether a complaint or allegation of misconduct by a Member should be investigated. The Council has also appointed an Independent Person in accordance with the Localism Act 2011 and is looking to appoint a second. The Council has two Parish Representatives who attend the Standards Committee.

As part of an ongoing Organisational Development Programme to ensure we have employees with the right skills, behaviours and attitudes, the organisation has developed core values of 'customer focus', 'achieving excellence' and 'our people'. The performance management process for staff changed in March 2020 from an annual appraisal to a minimum of four recorded performance and development discussions each year.

The culture of the organisation sets the foundation for the prevention of fraud and corruption by creating an environment that is based on openness and honesty in all Council activities.

The Council has the following policies and procedures in place which aim to prevent or deal with any instances of fraud, dishonesty or malpractice.

- Anti-Fraud and Corruption Policy
- Anti-Money Laundering Policy
- Whistleblowing Policy
- HR Disciplinary Policies
- Council's Equality Scheme
- Information Security Policies

The Head of Technology updated the Council's Information Security Policies during 2018/19 and compulsory training for all staff in technology security was introduced. A new

post of Information Security Officer was introduced in autumn 2019, a role shared with Crawley Borough Council.

6. TAKING INFORMED AND TRANSPARENT DECISIONS AND MANAGING RISK

The Council's Constitution sets out how the Council operates and the process for policy and decision making. A comprehensive review of the Constitution was completed in September 2016, and the amendments were approved by Full Council on 7th December 2016. A further review of the Constitution, especially around the planning function commenced by the Governance Committee during 2018. The changes were agreed by Council in April 2019. The Governance Committee also ironed out various anomalies in the 2016 Constitution during the year.

The Council's Risk Management arrangements are reviewed for effectiveness by the Audit Committee to ensure the process is embedded in the culture of the authority.

The Audit Committee also reviews the Corporate Risk Register which details the most significant risks facing the Council at each meeting.

All Heads of Service are responsible for implementing strategies at departmental level ensuring adequate communication, training and the assessment and monitoring of risks. All officers are responsible for considering risk as part of everyday activities and provide input to the risk management process.

The Chief Internal Auditor provides an annual opinion on the Council's governance arrangements, risk management systems and the overall control environment in his end of year report to the Audit Committee.

7. CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS

Training programmes for Council employees are identified from regular 1-2-1s, team meetings, staff appraisals and personal development programmes. All new recruits have a series of basic courses in key areas such as health and safety, data protection, IT security and GDPR they must complete before they pass their induction. During 2018/19 the Head of Human Resources and Organisational Development started a programme to ensure all staff have completed these courses and a programme is in place for annual updates where necessary.

New Members to the Council receive induction training in key areas including the Constitution, ethical governance, decision-making processes and the Council's Code of Members' Conduct. The induction also includes an introduction to the Council's services. All new Members are allocated a 'buddy' who is a senior Council officer tasked with helping the new Members to settle into the Council. There is an ongoing training programme of Member briefings on important areas of the Council's work. There is also ongoing training covering specific issues in a variety of areas. With the election of a new Council in May 2019 a full programme of member induction took place in summer 2019 with additional standards training for District and Parish Councillors in January 2020.

8. ENGAGEMENT WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS

The Council works hard to communicate its aims for the District. It conducts a wide range of service specific surveys to ascertain the views and needs of its residents. In autumn 2017 the Council carried out a customer satisfaction survey of the District. The Council

consults with Parish Councils and the Rural Towns Forum (i.e. a consortium of parish level Community Partnerships). It is a leading partner within, Community Safety and Health and Wellbeing Partnerships, linking statutory and non-statutory agencies to provide a co-ordinated approach to delivery of the programme across the District. The Council works with voluntary and community sector partners to ensure effective provision of community engagement activities across the district. These partnerships share feedback from their own stakeholder consultation.

These groups help the Council to assess the priorities of different sections of the community that have different needs, particularly surrounding Grants and funding, Parish Councils and areas that need targeted service delivery. Compliments and feedback received are monitored and reported to the Overview and Scrutiny Committee as part of the quarterly performance management report.

9. DETAILS OF KEY GOVERNANCE MECHANISMS

Sources of assurance received for each of the core principles are set out in the Horsham District Council's Local Code of Corporate Governance. (See Appendix B).

10. REVIEW OF EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

The Council's governance framework includes decision-making processes set out in the Council's Constitution, together with rules and procedures. A review of governance focussing on political structure and the decision-making process at a high level was completed in April 2016. The Council continues to operate the Cabinet Executive Model. Since this date the only significant changes to the governance framework were the Overview and Scrutiny Committee deleting its sub-committees in favour of task and finish groups, the Council agreeing to the deletion of the CenSus Joint Committee from 1 April 2018.

Mechanisms for maintaining and reviewing the effectiveness of the Council's governance arrangements throughout the year include:

- The Council comprises 48 Members and, as a whole, takes decisions on budget and policy framework matters as defined by the Constitution, including deciding on the aims and objectives of the Council as set out in the Corporate Plan and other decisions that are reserved in law to be taken only by the Council. In February 2020 the Council approved a new Corporate Plan for the current Council term.
- The Overview and Scrutiny Committee is able to scrutinise the decisions of the Cabinet and maintains an overview of Council activities which includes monitoring performance management.
- The Cabinet is ultimately responsible for considering overall financial and performance management.
- The Standards Committee meets quarterly and at every meeting considers an update report on complaints against Councillors. The Committee also keeps under review the Council's policies and procedures for maintaining high ethical standards.
- The Audit Committee meets quarterly to review the Council's risk management and control arrangements. It also reviews the Council's Treasury Management and Investment Strategies and has delegated authority to review and approve the statutory financial statements and consider reports from the Council's external auditors.
- The role of the Director of Corporate Resources (as Chief Financial Officer) includes stewardship and probity in the use of resources and performance, extracting best value

from the use of those resources. The Chief Financial Officer complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government. This post also fulfils the statutory roles of Money Laundering Reporting Officer and Senior Information Risk Owner.

- An annual internal audit plan is developed, in consultation with senior managers, which outlines the assignments to be carried out and estimated resources. The audit plan is sufficiently flexible to enable the Orbis Partnership Internal Audit team to respond to changing risks and priorities of the organisation.
- The Head of Legal and Democratic Services (as Monitoring Officer) has a duty to ensure that operations are carried out lawfully. This post also carries out the statutory Data Protection Officer role.

11. IMPROVEMENTS DURING THE YEAR

The following improvements to the Governance Framework were recognised during 2019/20:

- An annual review of performance indicators has been undertaken by Heads of Service and the Senior Leadership Team to ensure that these are meaningful and useful in helping services to achieve their objectives.
- E-Learning training has continued for staff. Learning and development has focused on helping to discharge the Council's statutory responsibilities in relation to health and safety, General Data Protection Regulation (GDPR), Equality and Discrimination, data security and cybercrime. A roll out of coaching training to all managers has begun and more than half have completed their training.
- All staff who had not previously completed their governance training did so during the year.
- A requirement for all senior managers and all officers involved in procurement to make an annual declaration of personal and financial interests was extended to all office based employees and extended to include family relationships with Councillors and officers and a declaration of other employment.
- Following some physical attacks on our Parking Enforcement Officers body worn cameras and location monitors were introduced for Parking Enforcement Officers and Community Wardens.
- Procurement of new Cloud based computer systems started for Planning and Regulatory Services and telephony during the year. Because these systems are Cloud based, they will, when live, reduce the risk of these services to a disaster in the Parkside building.
- The Director of Community Services made changes to the organisational structure of depot-based services and put an experienced Head of Service into the depot to help address governance compliance issues raised in an internal audit.
- The Council's 'Anti-Fraud and Corruption Policy' has been replaced by a new 'Counter Fraud Strategy and Framework'.
- Delays were identified in trade waste billing to some of our customers, leading to a partial assurance report from Internal Audit. Following identification, this has now been resolved.

12. SIGNIFICANT GOVERNANCE ISSUES

The 2018/19 Annual Governance Statement included an Action plan for 2019/20. Progress against the risks identified is reported in Appendix D

New significant governance issues are reported to the Audit Committee. An internal audit of Cultural Compliance at the Depot received a minimal assurance opinion from the Chief

Internal Auditor. This was reported to the Audit Committee in December. Recommendations for improvements arising from minor governance breaches are included in the new action plan in Appendix E.

Certification

It is our opinion that Corporate Governance, along with supporting controls and procedures, remains strong for the Council.

Signed

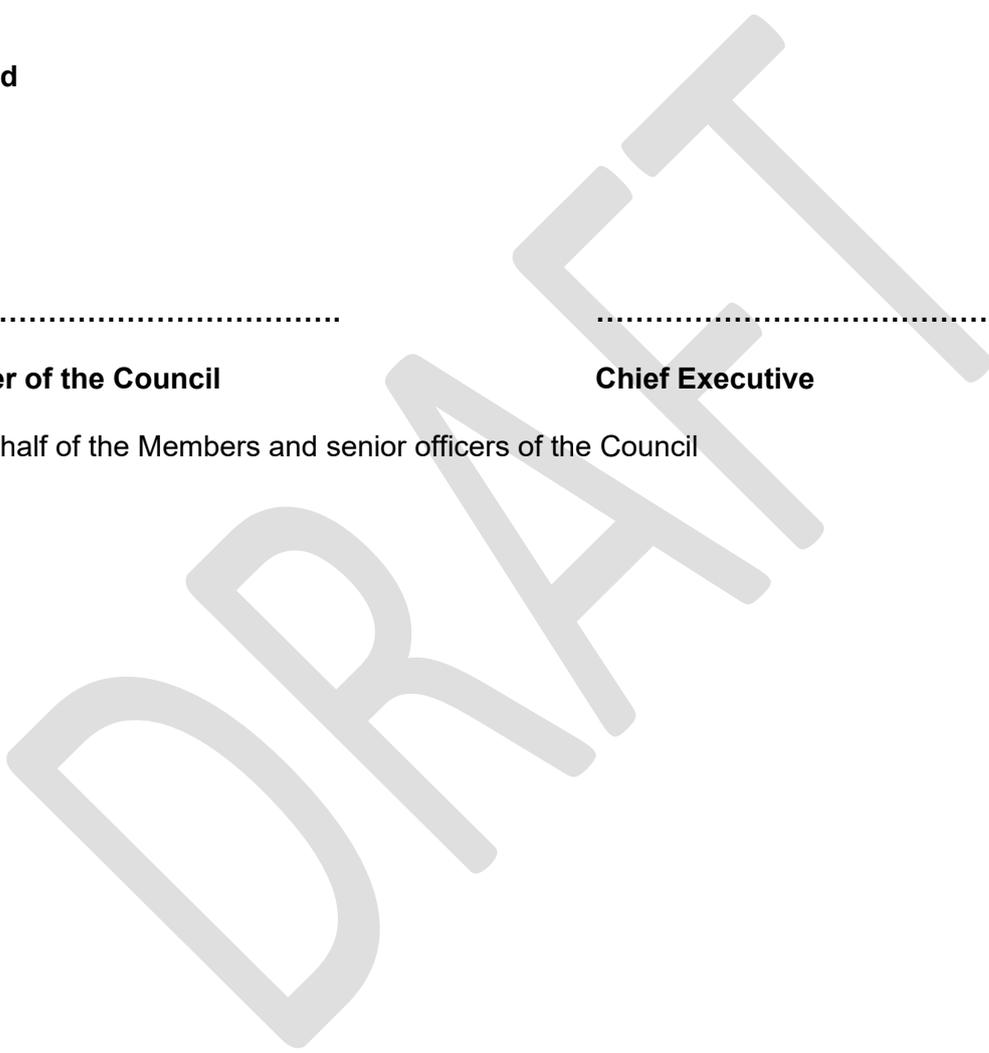
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Leader of the Council

.....

Chief Executive

On behalf of the Members and senior officers of the Council



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Appendix B - HDC Code of Corporate Governance

HORSHAM DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE

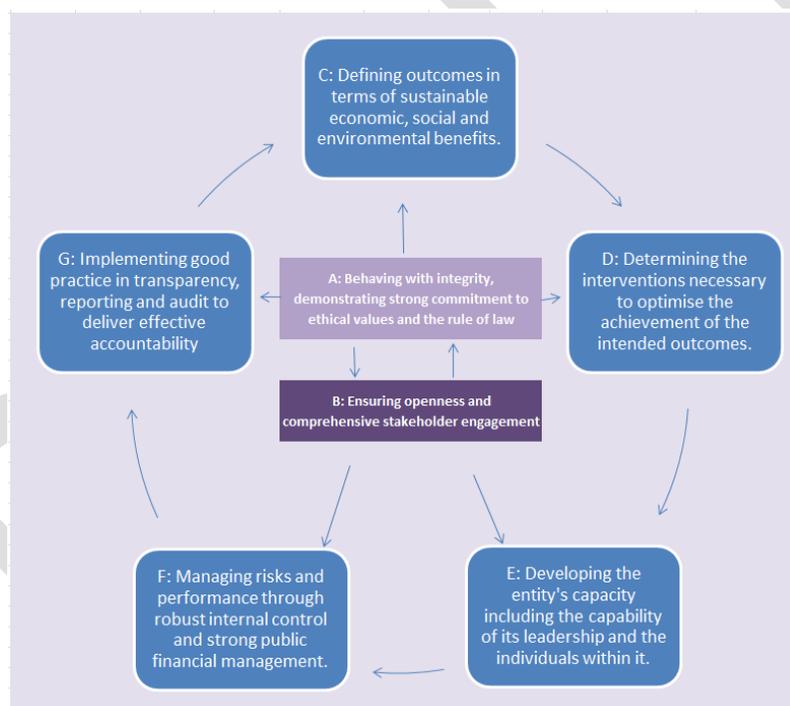
Corporate Governance comprises the systems, processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.

The Council's behaviours and actions that demonstrate good governance are set out in response to the CIPFA core principles.

A: Integrity; Ethical Values: the Rule of Law

- Member and Officer Codes of Conduct are included in the Constitution setting out the values and behaviours that the Council requires Members and officers to adopt.
- Rules of Procedure govern the expected conduct at meetings of the Council and its committees.
- The Counter Fraud Strategy is designed to encourage and promote the prevention and detection of fraud.
- Member and Officer Registers of Interests, Gifts and Hospitality safeguard both Members and officers against conflicts of interest.
- The Whistleblowing Policy ensures anyone with a concern can have confidence that it will be dealt with appropriately.
- There are core competencies for officers and a performance appraisal process monitors officer behaviours.
- The Standards Committee considers complaints or allegations made against Councillors, as required by the Localism Act 2011.
- In accordance with 'Working Together to Safeguard Children 2015' and 'The Care Act 2014', we recognise the need to ensure the welfare of all individuals when they come into contact with services provided by the Council.



B: Openness; engaging with institutional stakeholders; engaging with individual citizens and service users.

- The Constitution sets out how the Council operates, how decisions are made and the procedures and codes of conduct that are followed.
- The Overview and Scrutiny Committee reviews the Council's decision making processes and monitors the internal and external delivery of services.
- The Audit Committee is independent of Cabinet and Scrutiny functions. It receives reports on the work of External and Internal Audit and Risk Management.
- The Governance Committee meets to review the Council's Constitution when the need arises.
- The Council supports local communities that produce their own Neighbourhood Plans providing a vision for their area.
- The Council engages with the public in a number of public consultations. These are publicised on the Council's website and the feedback informs the Council's decision making process.
- The majority of the Council's meetings are open to the public. Agendas, papers and minutes are published on the Council's website.
- The Council recognises that supporting and engaging communities is a shared agenda with many partners including West Sussex County Council, the Police, Health and sports Services and the community and voluntary sector. Working together we are all committed to ensuring Horsham District remains a great area to live and work.
- Senior management communicates with staff by means of regular cascade meetings organised by the Senior Leadership Team: Director's meetings; Team meetings; Chief Executive Talks; the "Council Matters" publication and weekly SLT feedback.
- Consultation takes place with Parish Councils and other Voluntary and Community groups throughout the District to ensure effective provision of community engagement activities. These groups help the Council to assess the priorities of different sections of the community that have different needs.

C: Defining Outcomes; sustainable, economic, social and environmental benefits.

- The Corporate Plan for the period 2019-23 which is published on the Council's website identifies key priorities for the Council.
- Departmental Service Plans have been put in place in order to deliver the objectives of the Corporate Plan.
- The Council ensures objectives are deliverable by producing a Medium Term Financial Strategy and detailed financial budget plans.
- Progress against the Council's aims and objectives is monitored by means of its performance management framework and set of detailed performance management indicators.
- The Council Identifies and manages any corporate and departmental risks to achieving its objectives through its risk management process and issues regular reports to senior management and Members.
- Value for money is driven through the Council's Corporate Procurement Code.
- Information relating to Council plans and initiatives is published via its website and the Horsham District news magazine.

D: Determining and planning interventions; optimising achievement of intended outcomes.

- The Medium Term Financial Strategy is updated at least twice a year and takes into account changes in the financial outlook. It is used as a basis for the annual budget setting process in which all Heads of Service reconsider their departmental budgets. The Annual Budget and Council Tax rate are approved by full Council before the commencement of each financial year.
- Progress against the budget is reviewed on a monthly basis
- Key performance targets for each service area are set and progress against these is monitored regularly.
- The Council continually investigates alternative models of service delivery to improve efficiency whilst meeting the needs of customers.
- The Council is working with Community and Voluntary sector partners to develop projects and deliver efficient and effective services.
- The Council's Technology Strategy was updated during 2019/20 and the Digital Strategy introduced to ensure service delivery is supported efficiently and flexibly.
- Benchmarking against others provides information that assists the Council to design services that are fit for purpose by looking at options to improve delivery.

F: Managing risks; managing performance; robust internal control; managing data; strong public financial management.

- Decision making protocols are set out in the Council's Constitution.
- Agendas and minutes of Council/Committee meetings are published on the Council's website and include details of decisions taken.
- The Overview and Scrutiny Committee reviews the Council's decision making processes and monitors the internal and external delivery of services.
- Budget monitoring processes are in place and a summary of the Council's financial position is reported to senior management monthly and to Members quarterly.
- The Council has an established Risk Management Strategy and embedded Risk Management processes. Corporate and Departmental risks are formally reviewed quarterly.
- The Horsham Chief Internal Auditor reports to the Audit Committee. Audit work is planned to ensure there are robust systems of internal control in place to mitigate risks and provide assurance to senior management and Members.
- The Audit Committee meets four times a year to review the effectiveness of the control environment and risk management framework.
- An officer Corporate Governance Group oversees the Council's Governance arrangements.
- A complaints procedure is published on the Council's website. Quarterly monitoring reports are submitted to senior management and Members.
- The Council has a suite of policies covering information and data security and guidance is available for all staff on the Council's Intranet.

E: Developing the capacity of the entity through its leadership and other individuals.

- The Constitution sets out how the Council operates; how decisions are made and which Codes of Conduct are followed. The roles of Members are clearly set out and a Member/Officer protocol is included.
- A Scheme of Delegation has been established that determines the levels at which decisions are taken.
- Detailed regulations (for example Financial Regulations and Contract Standing Orders) have been established which officers must follow when undertaking their roles.
- A performance management framework monitors employees' performance through the annual performance appraisal system and helps to aid workforce planning. The process also identifies an individual's training needs.
- The Standards Committee deals with issues relating to Member performance.
- Partnership agreements are in place for each of the Council's strategic partnerships and Joint Management Boards meet regularly to monitor the agreements.
- A health and wellbeing programme is available to all employees.
- An induction training programme is in place for both Members and employees.
- Regular Managers' conferences enable managers to meet to consider current issues affecting the Council and to work together to identify solutions.

G: Good practice in transparency, reporting and audit to deliver effective accountability.

- All committee agendas, papers and minutes are available to the public on the Council's website (and in hard copy on request from the Council's offices).
- The Council publishes its Audited Annual Accounts and Annual Governance Statement including an action plan for improvement for any areas of concern.
- All external audit reports are published and corrective action is taken to address any issues highlighted as necessary.
- The Council has an effective Internal Audit service which reports to the Audit Committee. The work of Internal Audit is planned to ensure there are robust systems of internal control in place to mitigate risks and provide assurance to Members. Progress to implement agreed actions for improvement in control processes is monitored and reported to Members.
- Partnership arrangements are effectively monitored by Partnership Boards.

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GOVERNANCE ASSURANCE FRAMEWORK



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Assurance Framework Documentation

- Constitution
- Code of Conduct
- Complaints Procedure
- Equalities Scheme
- Head of Service Assurance Statements
- Communications Strategy
- Financial Policies & Procedures
- Risk Management Strategy & Toolkit
- Risk Registers
- Performance Framework

- Employee Policies
- Pay Policy
- Anti-Fraud & Corruption Policy
- Whistleblowing Policy
- Annual Internal Audit Report & Opinion
- Statement of Accounts
- Annual Audit Letter from external audit
- Annual Complaints Report
- Report of Local Government Ombudsman
- Results of External Inspections

- Corporate Plan & Service Plans
- MTFS & Budget
- Money Laundering Policy
- Partnership Agreements / SLAs
- Treasury Management & Investment Strategy
- Procurement Code
- Values & Behaviours

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**APPENDIX D:
ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN 2019/20**

No.	Area for Improvement	Actions	Responsible Officer	Status Update
1	S151 and Monitoring Officer sign off for Cabinet decision reports on Modern.gov	Roll out of tracking and sign off through Modern.gov	Democratic Services Manager	31/03/20 In Progress
2	Revenues and Benefits disaster recovery	Move of all Horsham and Mid Sussex based revenues and benefits systems to Milton Keynes Council	Head of Revenues and Benefits (LGSS)	30/06/19 COMPLETED
3	Plan for major power outage in the District	Prepare a plan for dealing with this type of emergency.	Well-being/ Community Safety Manager	31/10/19 COMPLETED
4	Mandatory governance training courses	<p>Ensure all mandated governance courses are completed by all staff. <i>Extended to 31/05/19 for Legal and Elections officers by CE</i></p> <p>Identify the courses needed, annual refresh and implement a refresh programme, reminders to be issued 31/03/20</p>	<p>All Heads of Service</p> <p>Head of HR & OD</p>	<p>31/05/19 COMPLETED</p> <p>31/05/20 ON SCHEDULE</p>
5	Review Council Tax Reduction Scheme non-implementation in 2015	Report on the causes of the Governance Framework issue reported and improvements to the Audit Committee	Director of Corporate Resources	10/04/19 COMPLETED
6	Review of departmental GDPR compliance	<p>Quarterly meetings with GDPR/FOI reps.</p> <p>All Heads of Service to review and update their GDPR Assurance Checklist. Checklist to be circulated January 2020.</p>	<p>All Heads of Service</p> <p>All Heads of Service</p>	<p>31/05/19 COMPLETED</p> <p>31/03/20 COMPLETED</p>

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**APPENDIX E:
ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN 2020/21**

No.	Area for Improvement	Actions	Responsible Officer	Target Date
1	Potential overlaps and conflicts between the Policy Development Advisory Groups and the Overview & Scrutiny Committee	Governance Committee to review the functions and make recommendations to Council for changes (if any)	Head of Legal & Democratic Services	30/03/21
2	Mandatory governance training courses	Identify the courses needed, annual refresh and implement a refresh programme, reminders to be issued 31/03/20	Head of HR & OD	31/05/20 ON SCHEDULE
3	S151 and Monitoring Officer sign off for Cabinet decision reports on Modern.gov	Roll out of tracking and sign off through Modern.gov	Democratic Services Manager	IN PROGRESS

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Report to Audit Committee

1st April 2020

By the Horsham Chief Internal Auditor (Orbis)



**Horsham
District
Council**

INFORMATION REPORT

Not Exempt

Internal Audit Progress Report – Quarter 3 (01/10/19 to 31/12/19)

Executive Summary

To provide Members with an update on all internal audit and counter fraud activity completed during the quarter, including a summary of all key findings. The report also includes details of progress on delivery of the annual audit plan along with an update on the performance of the internal audit service during the period.

Recommendations

The Committee is recommended to:

- Note the report and consider any further action required in response to the issues raised; and
- Identify any new or emerging risks for consideration for inclusion in the internal audit plan.

Reasons for Recommendations

- i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017).
- ii) The Audit Committee is responsible for reviewing the effectiveness of the Council's systems of internal control.

Background Papers

Internal Audit Strategy and Annual Plan 2019-20

Wards affected: All.

Report Author: Paul Miller, Horsham Chief Internal Auditor

Contact Details: Russell Banks, Orbis Chief Internal Auditor

Tel No. 01273 481447

Background Information

1 Introduction and Background

Background

- 1.1 This progress report covers work completed between 1 October 2019 and 31 December 2019.

Supporting Information

- 1.2 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2019-20 which was approved by the Audit Committee on 10 April 2019.

2 Relevant Policy / Professional Standards

- 2.1 Internal Audit follows the mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.
- 2.2 Internal Audit is conducted in accordance with the Council's Constitution. Financial Procedure Rule 4e 27 states that, in accordance with legislation, the Council should "make arrangements for the proper administration of their financial affairs". The terms of reference for Internal Audit are detailed in the Council's Internal Audit Charter which is approved and reviewed by the Audit Committee.

3 Conclusion and Reasons for Recommendation

- 3.1 Key audit findings from final reports are summarised in Appendix A.
- 3.2 Overall, of the six formal audits finalised during Quarter 3, one received a 'partial' assurance opinion, two received 'reasonable' assurance opinions and three 'substantial' assurance opinions. There were no opinions of 'minimal assurance'.
- 3.3 Formal follow up reviews continue to be carried out for all audits where 'minimal assurance' opinions have been given and for higher risk areas receiving 'partial assurance'. Progress on action tracking is provided in Section 3 of Appendix A, and details of outstanding high and medium actions are provided in Section 3.4.
- 3.4 Members will recall that flexibility was built into the audit plan to allow resources to be directed to any new and emerging risks. We continue to liaise with departments to identify these but would also welcome input from Members. Details of those reviews added and removed from the plan so far this year are set out in section 4 of Appendix A.
- 3.5 Progress against our performance targets (focussing on a range of areas relating to our service) can be found in section 5 of Appendix A. All targets have been assessed as on target (green).

4 Next Steps

- 4.1 The Committee will be kept informed about progress in terms of the delivery of the audit plan for 2019/20, with the final overall position summarised within the Annual Internal Audit Report and Opinion which will be reported to the committee in July.

5 Outcome of Consultations

- 5.1 Heads of Service / Service Managers are consulted during each audit. At the end of each review, audit findings and draft reports are discussed with the Heads of Service at a final meeting, and actions are agreed. An action plan is incorporated into the final report including details of responsible officers and agreed implementation dates. There are occasions when a director may also be consulted, particularly for audits which span a number of departments.

6 Other Courses of Action Considered but Rejected

- 6.1 Not applicable.

7 Resource Consequences

- 7.1 This report summarises information about the work undertaken by Orbis Internal Audit on behalf of Horsham District Council, and therefore there are no direct financial or HR consequences.

8 Legal Consequences

- 8.1 There are no legal consequences. Where compliance issues are identified during audit fieldwork, the Head of Legal & Democratic Services (or relevant legal specialist) will be consulted.

9 Risk Assessment

- 9.1 All Internal Audit work is undertaken using a risk based approach.

10 Other Considerations

- 10.1 Internal Audit is a reporting function and there are no consequences in respect of Crime & Disorder; Human Rights; Equality & Diversity; or Sustainability. However these areas are considered where appropriate during audit fieldwork.

Internal Audit and Counter Fraud Quarter 3 Progress Report 2019/20

CONTENTS

1. Summary of Completed Audits
2. Counter Fraud and Investigation Activities
3. Action Tracking
4. Amendments to the Audit Plan
5. Internal Audit Performance

1. Summary of Completed Audits

Accounts Receivable

- 1.1 The Accounts Receivable system is one of the Council's key financial systems, and the audit focussed on reviewing processes and key controls relating to the accuracy of customer details, completeness, accuracy and timeliness of invoicing, recording and matching payments to invoices, and debt recovery.
- 1.2 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- All income generating activities are identified and accurately raised to customers;
 - A customer account maintenance process is in place and operating effectively;
 - Amendments to invoices are correct and authorised;
 - Collection and debt recovery is managed efficiently and effectively;
 - Write-offs are processed accurately and are correctly authorised;
 - Payments are received and recorded against the correct debtor account in a timely manner;
 - Reconciliations between the Debtors system and the General Ledger are undertaken on a regular basis;
 - Debt recovery performance is monitored and reported.
- 1.3 We were only able to provide **Partial Assurance** over the controls operating within the area under review because, during the latter stages of our review, we were made aware of a significant issue relating invoicing.
- 1.4 Whilst in the most part, the Council's income collection and accounting arrangements were found to be reasonable, one service had fallen behind in the invoicing of some of its customers following its decision to transfer customer data from an Access database to another software system. Recovery action had therefore not taken place, and debt (as at August 2019) was believed to be in the region of £400,000. It is estimated that by October 2019 this had reduced to £280,000. The precise value was unknown as invoices were still being raised. An action plan to address this was already in place at the time of the audit. Given the significance of this issue, we intend to undertake a separate piece of work during 2020/21 which will include a review of the billing process for the department concerned.
- 1.5 With the exception of this particular issue, the accounts receivable process and controls in operation through the Technology One (T1) financial system were considered to be effective as:
- Checks are undertaken by the Accounts Receivable team before invoices are posted to the debtor.
 - Income is allocated correctly.
 - Unallocated income held in the Council's suspense account is regularly reviewed to ensure the early allocation of monies received.
 - Credit notes and refunds are justified and authorised by officers with appropriate authority.
 - Write-offs are approved at the appropriate level and supporting evidence is retained.
 - Regular reconciliations are undertaken, discrepancies are investigated where appropriate, and there is

appropriate senior management authorisation.

1.6 However, some areas where the control environment could be further improved were identified as follows:

- Service managers have been reminded that the Council's general Corporate Policy default position is to take electronic payment up front and then deliver the service. This approach has a number of benefits, but in particular, it reduces the cost of chasing debt.
- Service managers have been reminded of the importance of collating all documentation to support debtor invoices so that the Legal Services team has sufficient documentation to allow them to pursue the debt in the event of a recovery situation.
- Service managers have been reminded of the need to check whether a debtor already exists when raising a debtor account on the Council's Finance system, Technology One (T1), and to inform the Finance department if duplicates are identified so that they can be made inactive. This will help to reduce errors.
- Since the previous audit in 2018/19, system enhancements have been undertaken in T1. This includes the development of an appropriate aged debt report. However, whilst nearing completion, this development had not gone 'live' for individually tailored departmental dashboard use.

Capital Programme

1.7 Capital expenditure is used by organisations to acquire, upgrade and maintain assets such as property, buildings, technology, or equipment. The Council achieved 53% of its capital programme in 2018/19 across a total of 71 projects. The main areas of underspend during 2018/19 were Piries Place car park, commercial property, and temporary accommodation.

1.8 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- The capital programme, strategy and plan have been formally documented, approved by Members and meet the priorities of the Council;
- The capital programme monitoring arrangements are effective and timely in delivering stated outcomes;
- All funding due from third parties and capital grant providers is drawn down in a timely manner and the conditions of the grant provider are met;
- Capital receipts are received in a timely manner;
- The Council critically assess its capital borrowing requirements;
- Capital activity is accurately reflected in the financial accounts.

1.9 We were able to provide **Reasonable Assurance** over the controls operating within the area under review because:

- Appropriate arrangements are in place for the approval and documentation of the Capital Strategy and programme.

- The Capital programme spend is monitored against budget and is reported to the Senior Leadership Team.
- The asset register is reviewed and updated to reflect all of the Council's property, plant, and equipment.

1.10 However, the audit identified some areas for improvement which were as follows:

- Whilst the process for recording and monitoring capital programme information is operating as expected and we found no errors, the Council's T1 system has limitations and capital programme information needs to be recorded in multiple ledgers and systems. This may result in capital expenditure not being recorded accurately and variances on projected spend may not be identified. In the longer term, as part of the medium-term Finance objective plan, developments to the capital programme in T1 are being considered to include the capital programme, budget monitoring and the asset register.
- Appropriate planning had not always been undertaken by project managers before business cases were submitted for capital funding, resulting in project slippage and unforeseen costs. A Project Prioritisation and Resourcing Group was created shortly prior to the audit for the purpose of enabling improved prioritisation of projects, and to ensure that resource is used effectively across the Council. It has been agreed that this group will work in conjunction with the Project Review Group (which reviews key projects reported to SLT) and will consider and address project planning at the business case stage to enable more effective and efficient budget monitoring.

Technology One (T1)

1.11 T1 is a Software as a Service enterprise solution, providing a range of business process management tools. In 2017, the Human Resources (HR) module was added. The HR module allows staff to maintain their own personal records, plan their annual leave, and record any sickness absence. Other functions will be added in future, including the management of identity cards, benefiting from the system's ability to integrate the Council's information across multiple business processes.

1.12 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- System access is restricted to appropriately authorised individuals and the permissions provided to those users are in line with job functions;
- The system has recognised processes in place that allow for separation of duties, authorisation of transactions and can apply transaction limits based on user's permissions;
- Measures are taken to ensure that system input meets the expected criteria;
- An appropriate "audit trail" exists within the system, providing documentary evidence of all activity including who initiated the change, the time and date of the change, and the area where changes were made within the system;
- Outputs produced by the system are complete, accurate, reliable, distributed on time and with confidentiality where appropriate;
- System updates and enhancements are performed in a consistent manner and are subject to sufficient testing and authorisation before implementation;

- Appropriate support arrangements are in place to manage changes within the system.
- 1.13 The audit focussed specifically on the controls that have been built into T1 rather than focussing on the analysis of transactions, which are covered by the Key Financial systems audits that are carried out annually.
- 1.14 We were able to provide **Reasonable Assurance** over the controls operating within the area under review because:
- The system provides effective granular access control; ensuring restrictions can be applied to limit who has access to the functions of the system and what each user can do;
 - All payments to the Council's suppliers are authorised through the Accounts Payable module;
 - Error reports provide details of any issues that have resulted from the upload of data through the interfaces with other application systems;
 - We identified some operational issues that need to be resolved in relation to the administration of T1 as new functions are added. The Finance Department manages the system and the Systems Accountant and other Finance officers carry out most of the development and maintenance work on T1. This places significant reliance on the System Accountant who understands the complexities of T1. Whilst the risk of key-person dependency has been reduced with the introduction of another officer to support the System Accountant, it is important to reduce the administrative burden on the Finance Department and wherever possible encourage other departments to engage in the development of the new functions.
- 1.15 Six medium and two low risk findings were identified and actions have been agreed to further improve the control environment.

Treasury Management

- 1.16 Treasury management is defined by CIPFA as 'the management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.
- 1.17 As at the 31 March 2019, the Council's external debt was £4 million and investments totalled £36.1 million. During 2018/19, interest of £0.887 million was earned on investments, with an average return of 2.1%.
- 1.18 The Council's Treasury Management activities are regulated by a variety of professional codes, statutes and guidance.
- 1.19 The audit review assessed the adequacy of key controls and procedures across the Council's Treasury Management arrangements, including cash flow forecasting, segregation of duties, financial investments, and use of treasury advisers.
- 1.20 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- The Council has established an appropriate Treasury Management Policy & Investment Strategy;
 - All lending and borrowing decisions are based on robust cash flow forecasting over the short, medium and long term;
 - Investments are made with approved counterparties within approved limits, are correctly paid,

authorised, and are repaid by counterparties with the correct amount of interest;

- Borrowings are made only from approved organisations, are correctly authorised, and are repaid to counterparties with the correct amount of interest;
- There is regular and independent reconciliation between the Treasury Management record, the Bank Account and the General Ledger;
- Officers and elected Members receive regular and informative training and performance monitoring information.

1.21 We were able to provide **Substantial Assurance** over the controls operating within the area under review because:

- The Council has set out its investment strategy in the “Treasury Management and Capital Strategy” document, which has been formally approved.
- Progress and performance against the Treasury Management strategy is monitored and reported during and at the end of the financial year, as required by the CIPFA Code.
- Robust controls were exhibited as the Council's Cash Flow planning document is maintained, reviewed and updated daily. The forecast is used to ensure investment decisions are planned and executed when appropriate.
- Monthly reconciliations are undertaken, reviewed, and authorised, with discrepancies being comprehensively investigated and resolved.
- The banking management system (Bankline) is well controlled and restricted, as only appropriate employees have access and officers are unable to authorise their own transactions.
- Day-to-day transactions and monthly reconciliations are mainly undertaken by a single experienced officer. This officer is able to act independently when making investments and is supported and overseen by a senior officer with appropriate delegated authority. Since the previous audit in 2018/19 training is now being undertaken by two officers within Finance in order to provide resilience to the process when the experienced officer is on leave.
- One low priority area for improvement was identified for which remedial action has been agreed.

Cash and Bank

1.22 Cash and Bank is a key financial system designed to ensure that processes are in place for the safe receipt, recording, and custody of monies received by the Council in respect of all services.

1.23 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- All income transactions are promptly and accurately posted to the cash receipting system;
- All income is accurately and correctly populated to the correct financial system;
- The bank reconciliation is regularly prepared by an independent finance officer with evidence of

separation of duties, with a review of the reconciliation by an appropriate senior officer;

- Bank signatories are up to date and accurate.

1.24 We have been able to provide **Substantial Assurance** over the controls operating within the area under review because:

- The Council maintains the cash flow forecast, monitors bank balances, and posts transactions to ICON (the Council's Cash Receipting system) on a daily basis. The totals are balanced to the bank statement to ensure all transactions are appropriately dealt with.
- Robust controls are in operation regarding segregation of duties, as no single individual has overall control of the cash and bank process. Detailed process notes have been documented and there is appropriate cover in the case of absences.
- Daily banking reconciliations are undertaken promptly using the specific banking reconciliation module in Technology One (T1). This process has good internal record keeping and evidence to support analysis.
- Monthly bank reconciliations are undertaken promptly and are completed and reviewed by suitable members of staff with the appropriate level of delegated authority.
- Cash collected and recorded is banked weekly by a security company, and the timeliness of banking is monitored in Finance.
- There are effective controls in operation to ensure that the balances held in the suspense account are identified and promptly transferred to the correct General Ledger account.
- Bank account signatories have been updated to reflect recent staff changes.
- The Council is continuing its work to reduce the number of cash and cheques used as a method of payment.
- One area for improvement was suggested by the auditor which related to improving efficiency.

Server Room

1.25 In 2011, the Council entered into an agreement with West Sussex County Council (WSSC) to relocate its IT Servers and Communication equipment into Parkside. At the time of entering into the negotiations, WSSC was in the process of outsourcing their IT Service provision to Capita. Although the Data Centre is now managed on behalf of the County Council by Capita, Capita does not carry out any work on behalf of Horsham District Council; the servers and equipment housed within the Data Centre are managed and maintained by the Technology Services Department.

1.26 A Service Level Agreement (SLA) outlines the services provided by the County Council namely:

- Six Physical server racks of space, including the space in the Council's data centre at County Hall North, Horsham;
- 24/7 access to County Hall North (Horsham) Data Centre;

- Access to fibre network connection back to the Partner's site;
- Environmental Services to support the equipment;
- Power;
- Air-conditioning;
- Uninterruptable Power Supply (UPS);
- Generator Backup;
- Fire and environmental monitoring.

1.27 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- Physical access is restricted to limit and revoke access to premises, buildings and areas according to business needs, (including emergencies), ensuring access to premises, buildings and areas is justified, authorised, logged and monitored. (This applies to all persons entering the premises, including staff, temporary staff, clients, vendors, visitors or any other third party);
- Measures have been adopted to protect against environmental threats, ensuring that specialised equipment and devices have been introduced to monitor and control the environment in which servers are housed;
- Appropriate systems have been introduced to effectively prevent, detect and mitigate threats relating to theft, temperature, fire, smoke, water, vibration, terror, vandalism, power outages, chemicals or explosives.

1.28 We have been able to provide **Substantial Assurance** over the controls operating within the area under review because:

- The original decision to move the Council's application and data servers into the County Council's bespoke server room has provided the Council with the type of control environment that you will find in any modern purpose-built data centre.
- The Service Level Agreement document that was signed back in September 2011 contained all of the controls that you would expect to find, designed to protect the hardware and data assets that belong to the Council.
- We were able to find evidence that there is compliance with the controls outlined within the SLA contract.
- Two low priority findings were raised with the Head of Technology Services requiring the SLA to be renegotiated and updated, and appropriate actions have been agreed.

2. Counter Fraud and Investigation Activities

Proactive Counter Fraud Work

- 2.1 The Orbis Internal Audit structure came into effect from 1st April 2018. The integrated structure was designed to deliver resilience, flexibility and quality, along with specific specialisms. A key strand of the structure was the formation of a Counter Fraud Team that would deliver both reactive and proactive fraud services across the partnership. Work to date has focussed on the following areas:

National Fraud Initiative Exercise

- 2.2 Work is in progress to review the results of the NFI data matching exercise, and this work is ongoing. Any savings generated from the exercise will be summarised in the annual report.

Fraud Risk Assessment

- 2.3 A Fraud risk assessment has been undertaken to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified. A Fraud Response Plan will be developed for 2020/21 taking into consideration the results of the fraud risk assessment and emerging trends across the public sector in order to provide a proactive counter fraud programme. This will include an emphasis on data analytics.

Counter-Fraud Strategy and Framework

- 2.4 The Orbis Counter Fraud Team has developed a Counter-Fraud Strategy and Framework for Horsham and this has been approved by the Council's Senior Leadership Team.
- 2.5 Fraud awareness training was provided by the Orbis Internal Audit Counter Fraud Team to directors and senior managers at the Manager's Forum on 22nd January 2020. This was well received and included information about the types of fraud that might occur; common characteristics; guidance to managers in terms of what to look for; and the process for reporting.

Special Investigation

- 2.6 A mileage claim irregularity has been investigated by the Orbis Internal Audit Counter Fraud Team. This culminated in a formal disciplinary hearing in January 2020 which led to a dismissal.

3. Action Tracking

- 3.1 All high and medium priority actions agreed with management as part of individual audit reviews are subject to action tracking. As at the end of quarter 2, 99% of high and medium priority actions due had been implemented within agreed timescales.
- 3.2 The implementation of high and medium priority agreed audit actions (based on a 12 month rolling period) is summarised in the following table:

Period to:	High & Medium Priority Agreed Actions Due	Not implemented	Implemented	% Implemented
31/12/19	79	1	78	99%

3.3 Internal Audit will continue to work with senior management to ensure that sufficient attention is given to actions that remain overdue and an update on progress will continue to be reported to this committee.

3.4 Details of the outstanding priority agreed action:

Audit / Agreed Action	Directorate	Due Date	Revised Date	Progress to date
<p>Medium Priority <u>Purchase Orders (P.Os):</u></p> <p>Review the take up of purchase orders and encourage usage, with the expectation that the use of P.Os (as measured by P.Os raised as a percentage of invoices received) will increase.</p>	Corporate Resources	31/12/17	31/03/2020	<p><u>March 2020 Update:</u></p> <p>As part of the 2020 finance objectives, there are plans to roll out targeted and more bespoke learning (including updated guidance) on the use of P.Os.</p> <p>The targeting may also link to the work being undertaken on artificial intelligence – (i.e.) encourage the use of P.Os for regular and volumes of invoices.</p> <p>There are plans to schedule this for March and June 2020, and it is anticipated that purchase order usage will increase as a result.</p> <p>Reports are now in place to measure performance.</p>

4. Amendments to the Audit Plan

4.1 In accordance with proper professional practice, the internal audit plan for the year remains under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews have been added to the audit plan during the year:

- Review of HDC-LGSS file transfer process.
- A review of mileage claims, following an identified irregularity.
- Review of officer declarations of interest resulting in improvements in data capture and guidance.

4.2 Through the same process, audits may be removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in the 2020/21 plan as part of the overall risk assessment completed during

the annual audit planning process. Our audit of Car Parking income has been deferred until 2020/21 to allow time for the new ANPR computer system to bed-in.

5. Internal Audit Performance

5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set up agreed key performance indicators as set out in the following table:

Aspect of Service	Orbis IA KPI	Target	RAG score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by Audit Committee on 10 April 2019
	Annual Audit Report and Opinion	By end July	G	2018/19 report presented to the Audit Committee on 11 July 2019
	Customer Satisfaction levels	90% satisfied	G	100%
Productivity and process efficiency	Audit Plan – completion to draft report stage	90%	G	75% completed to draft report stage at the end of Quarter 3, against a target of 67.5%
Compliance with professional standards	Public Sector Internal Audit Standards complied with	Conforms	G	January 2018 - External assessment by the South West Audit Partnership gave an opinion of 'Generally Conforms' – the highest of three possible rankings
	Relevant legislation such as the Police And Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high & Medium priority agreed actions	G	99%
Our staff	Professionally qualified / accredited	80%	G	92.9% ¹

¹ Includes part-qualified staff and staff currently training for a professional qualification.

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Report to Audit Committee

1st April 2020

By the Horsham Chief Internal Auditor (Orbis)



INFORMATION REPORT

Not Exempt

Internal Audit Strategy 2020/21 and Annual Plan

Executive Summary

The purpose of this report is to present the Council's Internal Audit Strategy 2020/21 and Annual Plan.

Recommendations

The Committee is recommended to:

- i) To approve the Council's Internal Audit Strategy 2020/21 and Annual Plan.

Reasons for Recommendations

- i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017).
- ii) The Audit Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

Background Papers

Corporate Plan; Risk Registers; Horizon Scanning documents; and supporting audit working papers.

Wards affected: All.

Report Author: Paul Miller, Horsham Chief Internal Auditor

Contact Details: Russell Banks, Orbis Chief Internal Auditor
Paul Miller, Horsham Chief Internal Auditor

Tel No. 01273 481447

Tel No. 01403 215319

Background Information

1 Introduction and Background

- 1.1 The Council's Internal Audit Strategy 2020/21 and Annual Plan (Annexe A) sets out how the Council will meet its statutory requirements for internal audit, as defined within the Accounts and Audit Regulations 2015. The Strategy proposes an approach based on focusing audit resources in those areas where the highest risk to the achievement of the Council's objectives lies. These areas have been identified and prioritised based on the Council's own risk assessment processes (including corporate and departmental risk registers) and following consultation with senior officers and Members.

2 Relevant Policy / Professional Standards

- 2.1 Internal Audit follows the mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.
- 2.2 Internal Audit is conducted in accordance with the Council's Constitution. Financial Procedure Rule 4e 27 states that: "the Chief Finance Officer, as determined by the Council, will ensure that the Council has appropriate arrangements in place to maintain an adequate and effective internal audit". The terms of reference for Internal Audit are detailed in the Council's Internal Audit Charter which is reviewed and approved by the Audit Committee.

3 Next Steps

- 3.1 The Committee will be kept informed about progress in terms of the audit plan.

4 Outcome of Consultations

- 4.1 As with the previous year, we have sought to focus our audit and assurance activity on supporting the delivery of the Council's five overarching priority outcomes, namely:
- A great place to live
 - A thriving economy
 - A strong, healthy and safe community
 - A cared for environment
 - A modern and flexible council

5 Other Courses of Action Considered but Rejected

- 5.1 Not applicable.

6 Resource Consequences

- 6.1 This report summarises information about the work that will be undertaken by Orbis Internal Audit on behalf of Horsham District Council, and therefore there are no direct financial or HR consequences.

7 Legal Consequences

7.1 There are no legal consequences.

8 Risk Assessment

8.1 The audit plan is a risk-based plan.

9 Other Considerations

9.1 Internal Audit is a reporting function and there are no consequences in respect of Crime & Disorder; Human Rights; Equality & Diversity; or Sustainability. However these areas are considered where appropriate during audit fieldwork.

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Internal Audit Strategy and Annual Audit Plan 2020-2021

Annexe A

1. Role of Internal Audit

1.1 The full role and scope of the Council’s Internal Audit Service is set out within the Internal Audit Charter and Terms of Reference, the latest version of which is attached to this Strategy as Appendix B.

1.2 The mission of Internal Audit, as defined by the Chartered Institute of Internal Auditors (CIIA), is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit is defined as *“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

1.3 The organisation’s response to internal audit activity should lead to a strengthening of the control environment, thus contributing to the overall achievement of organisational objectives.

2. Risk Assessment and Audit Planning

2.1 Horsham District Council’s Internal Audit Strategy and Annual Audit Plan is updated annually and is based on a number of factors, especially management’s assessment of risk (including that set out within the corporate and departmental risk registers) and our own risk assessment of the Council’s major systems and other auditable areas. This allows us to prioritise those areas to be included within the audit plan on the basis of risk.

2.2 The update of the annual plan for 2020/21 has involved consultation with a range of stakeholders, to ensure that their views on risks and current issues, within individual directorates and corporately, are identified and considered. In order to ensure that the most effective use is made of available resources, to avoid duplication and to minimise service disruption, efforts continue to be made to identify, and where possible, rely upon, other sources of assurance available. The following diagram sets out the various sources of information used to inform our 2020/21 audit planning process:



Annexe A

2.3 In order to ensure audit and assurance activity is properly focussed on supporting the delivery of the Council's priorities, the audit plan has taken into account the key corporate goals of the Council as set out within the Council's Corporate Plan:

- A great place to live
- A thriving economy
- A strong, healthy and safe community
- A cared for environment
- A modern and flexible council

2.4 In producing the audit plan (which is set out in Appendix A to this report) the following key principles continue to be applied:

- All key financial systems are subject to a cyclical programme of audits covering, as a minimum, compliance against key controls;
- Previous reviews which resulted in 'minimal assurance' audit opinions will be subject to a specific follow-up review to assess the effective implementation by management of agreed actions. This will also include a number of previous reviews with a 'partial assurance' opinion where deemed necessary or where the area under review is considered to be of a higher risk nature.

2.5 In addition, formal action tracking arrangements are in place to monitor the implementation by management of all individual high and medium risk agreed actions, with the results of this work reported to the Audit Committee on a quarterly basis.

2.6 During the last three years, Surrey County Council, East Sussex County Council and Brighton and Hove City Council have been working together to develop and form the Orbis Partnership, covering a range of business services, including internal audit. This work has resulted in the formation of a single, integrated internal audit service from April 2018, involving three locality based teams supported by two specialist teams in the areas of ICT audit and counter fraud. It is our ambition that this will provide greater resilience and capacity for our partner councils whilst also building on existing high quality services.

3. Key Issues

3.1 In times of significant transformation, organisations must both manage change effectively and ensure that core controls remain in place. In order to respond to the continued reduction in financial resources and the increased demand for services, the Council needs to consider some changes to its service offer in many areas.

3.2 Internal Audit must therefore be in a position to give an opinion and assurance that covers the control environment in relation to both existing systems and these new developments. It is also essential that this work is undertaken in a flexible and supportive manner, in conjunction with management, to ensure that both risks and opportunities are properly considered. During 2020/21, a number of organisational and new system initiatives are featured within the audit plan, with the intention that Internal Audit is able to provide proactive advice, support and assurance as these programmes progress. These include:

Annexe A

- Capitol - Bar & catering facility
- Community lottery
- Jigsaw (Housing Services) computer application system audit
- Ulysses (Safelink) computer application system audit

3.3 In recognition that in some cases, sufficient information regarding the full extent of future changes and associated risks may not yet be known, the 2020/21 audit plan includes a proportion of time classified as 'Emerging Risks'. This approach has been adopted to enable Internal Audit to react appropriately throughout the year as new risks materialise and to ensure that expertise in governance, risk and internal control can be utilised early in the change process.

3.4 In view of the above, Internal Audit will continue to work closely with senior management and Members throughout the year to identify any new risks and to agree how and where audit resources can be utilised to best effect.

3.5 Other priority areas identified for inclusion within the audit plan include:

- Procurement
- Budgetary Control
- Car Parking Income
- Trade Waste
- Volunteers
- Data in Transit
- Travel and Expenses

3.6 The results of all audit work undertaken will be summarised within quarterly update reports to the Senior Leadership Team, and the Audit Committee, along with any common themes and findings arising from our work.

4. Counter Fraud

4.1 Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Counter Fraud Strategy and Framework.

4.2 The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

4.3 In addition, Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud. Through the work of the Counter Fraud Team, Internal Audit will maintain a fraud risk assessment and deliver a programme of proactive and reactive counter fraud services to help ensure that the Council continues to protect its services from fraud loss. This will include leading on the National Fraud Initiative data matching exercise on behalf of the the Council.

5. Matching Audit Needs to Resources

5.1 The overall aim of the Internal Audit Strategy is to allocate available internal audit resources so as to focus on the highest risk areas and to enable an annual opinion to be given on the adequacy and effectiveness of the Council's governance, risk and control framework.

5.2 Orbis Internal Audit is contracted to provide 400 days to Horsham District Council for the provision of audit and fraud services.

5.3 Internal audit activities will be delivered by a range of staff from across the Orbis Internal Audit Service, maximising the value from a wide range of skills and experience available. In the small number of instances where sufficient expertise is not available from within the team, mainly in highly technical areas, externally provided specialist resources will continue to be utilised.

5.4 The following table summarises the level of audit resources expected to be available for Horsham District Council in 2020/21 (expressed in days), compared to the equivalent number of planned days in previous years. The overall level of resource remains consistent with that of the previous year and is considered to be sufficient to allow Internal Audit to deliver its risk based plan in accordance with professional standards¹ and to enable the Chief Internal Auditor to provide his annual audit opinion.

Table 1: Annual Internal Audit Plan – Plan Days

	2016/17	2017/18	2018/19	2019/20	2020/21
Plan Days	600	492	400	400	400

6. Audit Approach

6.1 The approach of Internal Audit is to use risk based reviews, supplemented in some areas by the use of compliance audits and themed reviews. All audits have regard to management's arrangements for:

- Achievement of the organisation's objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

6.2 In addition to these audits, and the advice on controls given on specific development areas which are separately identified within the plan, there are a number of generic areas where there are increasing demands upon Internal Audit, some of which cannot be planned in advance. For this reason, time is built into the plan to cover the following:

- Contingency – an allowance of days to provide capacity for unplanned work, including special audits and management investigations. This contingency also allows for the completion of work in progress from the 2019/20 plan;

¹ Public Sector Internal Audit Standards (PSIAS)
Horsham District Council

Annexe A

- Advice, Management, Liaison and Planning - an allowance to cover provision of ad hoc advice on risk, audit and control issues, audit planning and annual reporting, ongoing liaison with service management and Members, and audit management time in support of the delivery of all audit work, planned and unplanned.

6.3 In delivering this strategy and plan, we will ensure that liaison has taken place with the Council's external auditors, Ernst and Young, to ensure that the use of audit resources is maximised, duplication of work is avoided, and statutory requirements are met.

7. Training and Development

7.1 The effectiveness of the Internal Audit Service depends significantly on the quality, training and experience of its staff. Training needs of individual staff members are identified through a formal performance and development process and are delivered and monitored through on-going management supervision.

7.2 The team is also committed to coaching and mentoring its staff, and to providing opportunities for appropriate professional development. This is reflected in the high proportion of staff holding a professional internal audit or accountancy qualification as well as several members of the team continuing on new apprenticeship training during 2020/21.

8. Quality and Performance

8.1 With effect from 1 April 2013, all of the relevant internal audit standard setting bodies, including CIPFA, adopted a common set of Public Sector Internal Audit Standards (PSIAS). These are based on the Institute of Internal Auditors International Professional Practices Framework and replace the previous Code of Practice for Internal Audit in Local Government.

8.2 Included within the new Standards is the requirement for the organisation to define the terms 'Board' and 'senior management' in the context of audit activity. This has been set out within the Internal Audit Charter, which confirms the Audit Committee's role as the Board.

8.3 The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment. The outcomes from these assessments, including any improvement actions arising, will be reported to the Audit Committee, usually as part of the annual internal audit report. For clarity, the Standards specify that the following core principles underpin an effective internal audit service:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives, and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused;

Annexe A

- Promotes organisational improvement.

8.4 In addition, the performance of Orbis Internal Audit continues to be measured against key service targets focussing on service quality, productivity and efficiency, compliance with professional standards, influence and our staff. These are all underpinned by appropriate key performance indicators as set out in Table 2 below.

8.5 At a detailed level each audit assignment is monitored and customer feedback sought. There is also ongoing performance appraisals and supervision for all Internal Audit staff during the year to support them in achieving their personal targets.

8.6 In addition to the individual reports to management for each audit assignment, reports on key audit findings and the delivery of the audit plan are made to the Audit Committee on a quarterly basis. An Annual Internal Audit Opinion is also produced each year.

8.7 Whilst Orbis Internal Audit liaises closely with other internal audit services through the Sussex and Surrey audit and counter fraud groups, the Home Counties Chief Internal Auditors' Group and the Local Authority Chief Auditors' Network, we are continuing to develop joint working arrangements with other local authority audit teams to help improve resilience and make better use of our collective resources.

Table 2: Performance Indicators

Aspect of Service	Orbis IA Performance Indicators	Target
Quality	<ul style="list-style-type: none"> • Annual Audit Plan agreed by Audit Committee • Annual Audit Report and Opinion • Satisfaction levels 	<p>By end April 2020</p> <p>To inform AGS by July 2020</p> <p>90% satisfied</p>
Productivity and Process Efficiency	<ul style="list-style-type: none"> • Audit Plan – completion to draft report stage by 31 March 2021 	90%
Compliance with Professional Standards	<ul style="list-style-type: none"> • Public Sector Internal Audit Standards • Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act 	<p>Conforms</p> <p>Conforms</p>
Outcomes and degree of influence	<ul style="list-style-type: none"> • Implementation of management actions agreed in response to audit findings 	95% for high and medium priority
Our Staff	<ul style="list-style-type: none"> • Professionally Qualified/Accredited 	80%

Paul Miller
Horsham Chief Internal Auditor

INTERNAL AUDIT PLAN

2020-21



**Horsham
District
Council**

Planned Audit Reviews

Review Name	Outline Objective
Main Accounting	To review the controls in operation for ensuring the accuracy of the main financial system, including a review of suspense accounts, reconciliations, and journals.
Accounts Payable	To review the processes and key controls relating to the accounts payable system, including those in place for ensuring the accuracy of vendor details, the processing of invoices, goods receipting and promptness of payments.
Accounts Receivable	To review the processes and key controls relating to the accounts receivable system, including those in place for ensuring the accuracy of customer details, completeness, accuracy and timeliness of invoicing, recording and matching payments to invoices, and debt recovery.
Budgetary Management (Revenue)	To review all elements of budget management including budget setting, governance arrangements, reporting and forecasting from strategic level down to operational budget monitoring arrangements, including savings targets and medium term financial planning.
Payroll	To review controls in relation to the staff payment system, including those relating to starters, leavers, temporary and permanent payments, variations of pay, and pre-employment checks.
Treasury Management	To review the adequacy of key controls and procedures across the council's Treasury Management arrangements, including cash flow forecasting, segregation of duties, financial investments and use of treasury advisers.
Parking Income	To review income management arrangements for on-street and off-street parking, including reconciliations and income monitoring controls.
BACS Processing Arrangements	To review the Council's BACS processing arrangements, to ensure adequate controls exist to prevent unauthorised amendment of BACS files and inappropriate payments.
Volunteers	To review the Council's processes for the selection, induction, training and supervision of volunteers. The audit will also focus on the wellbeing of volunteers, ensuring that there are adequate health and safety arrangements in place and that volunteers are fairly treated.

INTERNAL AUDIT PLAN 2020-21



**Horsham
District
Council**

Travel & Expenses	This audit will review the controls associated with all methods of staff travel and expenses, including (but not limited to) mileage claims, season tickets, workplace travel allowances, and purchasing cards.
Building Control (Cultural Compliance)	Corporate compliance and ethical behaviour are an important aspect of the Council's overall control environment. The audit will include a review of roles and responsibilities, standards, awareness, and compliance with corporate policy and control requirements.
Capitol (Cultural Compliance) Follow up	This review will assess the implementation of the agreed actions arising from the Capitol (Cultural Compliance) audit that was completed in 2019/20 and which received an audit opinion of partial assurance.
Capital Grant External Funding	To review the Council's financial control arrangements when securing external funding, including budgetary approval, adherence to the Council's procurement process, and steps taken to ensure that bid conditions are met.
Council Procurement Practices	A review to assess the adequacy and effectiveness of procurement practices across the Council, potentially including: <ul style="list-style-type: none"> • The role of the Procurement team; • Compliance with Procurement Standing Orders, including the use of waivers and the award of contracts; • Procurement transparency requirements;
Property & Facilities (Cultural Compliance) Follow up	This review will assess the implementation of the agreed actions arising from the Property & Facilities (Cultural Compliance) audit that was completed in 2019/20 and which received an audit opinion of partial assurance.
New Area: Capitol - Bar & Catering facility	To review the new in-house bar and catering facilities at the Capitol, to ensure that appropriate controls are in place and that the objectives and benefits outlined in the business case are being fulfilled.
Trade Waste	To review the governance and control processes for the management of the trade waste service. The audit review will include the trade waste collection strategy; customer contracts; income collection arrangements; collection rounds; performance and service standards; controlled waste transfer notes; budgetary control; use of technology; and the adequacy of supervision / management controls.

INTERNAL AUDIT PLAN 2020-21



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Computer Audit: Data in Transit/Home & Mobile Working	This audit will consider the effectiveness of control arrangements in place for the security of all council data when in transit. The audit will consider data held on laptops and other mobile devices, as well as written notes, printed reports etc.
Cultural Compliance - Community - Parks & Countryside).	Corporate compliance and ethical behaviour are an important aspect of the Council's overall control environment. The audit will include a review of roles and responsibilities, standards, awareness, and compliance with corporate policy and control requirements.
Jigsaw Computer Application Audit	The Jigsaw application is used to support the management of the Council's front line Housing service. The system is a cloud based 'software as a service' solution. This audit will review all major input, processing and output controls (including access controls), and will review the controls in place to interface with the Council's main accounting system.
Technology One (T1) Access Control	This audit has been requested by the Head of Finance to provide assurance over a specific activity relating to the creation and administration of permissions within the T1 system.
Community Lottery	To review the governance arrangements for the setting up and administration of the new Community Lottery scheme, including the financial arrangements and distribution process.
Emergency Planning Follow up	This review will assess the implementation of the agreed actions arising from the Emergency Planning audit that was completed in 2019/20 and which received an audit opinion of partial assurance.
Hop Oast (Cultural Compliance) Follow up	This review will assess the implementation of the agreed actions arising from the Hop Oast (Cultural Compliance) audit that was completed in 2019/20 and which received an audit opinion of minimal assurance.
Asset Management	Financial information relating to the Council's property assets are currently recorded in the Council's legacy financial system (Total). There are plans to migrate the data from Total to the new Technology One system (T1) towards the end of the 2020/21 financial year. Internal audit will provide independent assurance that the data has transferred correctly from the old to the new system.
Ulysses Computer Application Audit	Ulysses has been developed in-house as a replacement for the Community Link system. This audit will review all major

INTERNAL AUDIT PLAN 2020-21



**Horsham
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	input, processing and output controls including access controls.
Anti-Fraud and Corruption	To cover the investigation of fraud and irregularities, as well as proactive work, including the National Fraud Initiative (NFI) data matching exercise.

Internal Audit Service Management and Delivery

Review Name	Outline Objective
Action Tracking	Ongoing action tracking and reporting of agreed medium and high priority actions.
Annual Internal Audit Report and Opinion	Creation of Annual Report and Opinion.
Audit and Fraud Management	Overall management of all audit and counter fraud activity, including work allocation, work scheduling and Orbis Audit Manager meetings.
Audit and Fraud Reporting	Production of periodic reports to management and the Audit Committee covering the results of all audit and anti-fraud activity.
Audit Committee and other Member Support	Ongoing liaison with Members on internal audit matters and attending Audit Committee meetings and associated pre-meetings as appropriate.
Client Service Liaison	Liaison with clients and departmental management teams throughout the year.
Client Support and Advice	Ad hoc advice, guidance and support on risk, internal control and governance matters provided to clients and services throughout the year.
External Liaison	Liaison with external auditors and other external bodies, including attendance at regional and national audit groups and counter fraud hubs.
Organisational Management Support	Corporate Governance Group; Project Review Group; Risk Management; and Horsham Management meetings (e.g. Departmental Team Meetings; Manager's Forums; Conferences).
Strategy and Annual Audit Planning	Development and production of the Internal Audit Strategy and Annual Audit Plan, including consultation with management and Members.

INTERNAL AUDIT CHARTER

1. Introduction

This Charter describes for the Council the purpose, authority and responsibilities of the Internal Audit function in accordance with the UK Public Sector Internal Audit Standards (PSIAS).

The PSIAS require that the Charter must be reviewed periodically and presented to “senior management” and “the board” for approval. For the purposes of this charter “senior management” will be the Senior Leadership Team and the board will be the Audit Committee.

The Charter shall be reviewed annually and approved by the Senior Leadership Team and the Audit Committee. The Chief Internal Auditor for Horsham is responsible for applying this Charter and keeping it up to date.

2. Internal Audit Purpose

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Internal Audit is defined in the PSIAS as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

Internal Audit supports the whole Council to deliver economic, efficient and effective services and achieve the Council’s vision, priorities and values.

3. Statutory Requirement

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which require every local authority to maintain an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.

These regulations require any officer or Member of the Council to

- make available such documents and records; and

- supply such information and explanations;

as are considered necessary by those conducting the audit.

This statutory role is recognised and endorsed within the Council's Financial Procedure Rules.

In addition, the Council's S151 Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To perform that duty the Section 151 Officer relies, amongst other things, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.

4. Internal Audit Responsibilities and Scope

Annually the Chief Internal Auditor is required to provide to the Audit Committee an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

Internal Audit is not responsible for control systems. Responsibility for effective internal control and risk management rests with the management of the Council.

Internal Audit activity must be free from interference in determining the scope of activity, performing work and communicating results.

The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessment (as set out within Council risk registers). Extensive consultation also takes place with key stakeholders and horizon scanning is undertaken to ensure audit activity is proactive and future focussed.

Internal audit activity will include an evaluation of the effectiveness of the organisation's risk management arrangements and risk exposures relating to:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Efficiency and effectiveness of operations and activities;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts

5. Independence

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors should have no operational responsibilities.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Chief Internal Auditor has direct access to, and freedom to report in their own name and without fear of favour to, all officers and Members and particularly those charged with governance.

All Internal Audit staff are required to make an annual declaration of interest to ensure that objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

6. Reporting Lines

Regardless of line management arrangements, the Chief Internal Auditor has free and unfettered access to report to the S151 Officer; the Monitoring Officer; the Chief Executive; the Audit Committee Chairman; the Leader of the Council and the Council's External Auditor.

The Audit Committee will receive reports on a periodic basis – as agreed with the Chairman of the Audit Committee – on the results of audit activity and details of Internal Audit performance including progress on delivering the audit plan.

7. Fraud & Corruption

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will however be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Counter Fraud Strategy and Framework.

The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud.

8. Consultancy Work

Internal Audit may also provide consultancy services, generally advisory in nature, at the request of the organisation. In such circumstances, appropriate arrangements will be put in place to safeguard

the independence of Internal Audit and, where this work is not already included within the approved audit plan and may affect the level of assurance work undertaken; this will be reported to the Audit Committee.

In order to help services to develop greater understanding of audit work and have a point of contact in relation to any support they may need, Internal Audit has put in place a set of service liaison arrangements that provide a specific named contact for each service; and, regular liaison meetings. The arrangements also enable Internal Audit to keep in touch with key developments within services that may impact on its work.

9. Resources

The work of Internal Audit is driven by the annual Internal Audit Plan, which is approved each year by the Audit Committee. The Chief Internal Auditor is responsible for ensuring that Internal Audit resources are sufficient to meet its responsibilities and achieve its objectives.

Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

The Chief Internal Auditor is responsible for appointing Internal Audit staff and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Chief Internal Auditor may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

10. Due Professional Care

The work of Internal Audit will be performed with due professional care and in accordance with the UK Public Sector Internal Audit Standards (PSIAS), the Accounts and Audit Regulations (2015) and with any other relevant statutory obligations and regulations.

In carrying out their work, Internal Auditors must exercise due professional care by considering:

- (i) The extent of work needed to achieve the required objectives;
- (ii) The relative complexity, materiality or significance of matters to which assurance procedures should be applied; and
- (iii) The adequacy and effectiveness of governance, risk management and control processes;
- (iv) The probability of significant errors, fraud or non-compliance; and
- (v) The cost of assurance in proportion to the potential benefits.

Internal Auditors will also have due regard to the Seven Principles of Public Life – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership.

11. Quality Assurance

The Chief Internal Auditor will control the work of Internal Audit at each level of operation to ensure that a continuously effective level of performance – compliant with the PSIAS is maintained.

A Quality Assurance Improvement Programme (QAIP) is in place which is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs its work in accordance with its charter
- Operates in an effective and efficient manner; and,
- Is adding value and continually improving the service that it provides

The QAIP requires an annual review of the effectiveness of the system of Internal Audit to be conducted. Instances of non-conformance with the PSIAS, including the impact of any such non-conformance, must be disclosed to the Audit Committee. Any significant deviations must be considered for inclusion in the council's Annual Governance Statement.

January 2020

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By virtue of paragraph(s) 1, 2, 4 of Part 1 of Schedule 12A of the Local Government Act 1972.

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