

# Internal Audit and Counter Fraud Quarter 2 Progress Report 2018/19

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## 1. Summary of Completed Audits

### Contract Management

- 1.1 The review focused on how effectively contracts are being managed including providing assurance that controls are in place to meet the following objectives:
- To review the governance arrangements for contract management to ensure that contracts are managed effectively;
  - To ensure that the Council's Contracts Register is up-to-date and that there is clear accountability in terms of contract management responsibilities;
  - To ensure contracts are formally agreed and signed in a timely manner;
  - To ensure the Leisure and Rookwood contracts are properly managed, that services are provided in line with the contract, and that performance is adequately monitored.
- 1.2 Overall, we were only able to provide **Partial Assurance** over the controls operating within the area under review because of a number of weaknesses. Areas for improvement include:
- The Procurement Toolkit is a lengthy document, and contract management guidelines appear towards the end of the document. It would be helpful if the contract management section was made more visible by including appropriate signposting.
  - The Council's Management Training e-learning suite does not include a module dealing with procurement (including contract management), although this has been purchased. The Council would benefit from adopting this module and making it available to staff.
  - At the commencement of the audit, the auditor found that the Contracts Register on the Council's website was out of date. An updated version of the register has now been uploaded to replace the previous version.
  - The Council's procurement officers maintain a more detailed version of the published Contracts Register on their own network drive, but information in key fields is not always recorded (e.g. contract start and finish dates, and significantly 'contract value'). Furthermore, the responsible contract manager is not always updated in the register when contract managers leave the organisation.
- 1.3 On a more positive note, testing of a sample of current contracts showed that when formal contracts have been entered into, Legal Services were able to easily locate the contract documentation.
- 1.4 Appropriate action to address the findings of this audit has been agreed with management within a formal action plan.

### Community Infrastructure Levy

- 1.5 The Community Infrastructure Levy (CIL) scheme was introduced by Horsham District Council on 1st October 2017. At the time of the audit, only £30,000 had been received, but CIL receivable in respect of planning permissions granted was in the region of £1.54m (at that time).

- 1.6 The purpose of the review was to ensure that the CIL application and bidding process is operating effectively to maximise the Council's ability to secure funding, including assurance that funds received are used appropriately.
- 1.7 Overall, we were able to provide **Reasonable Assurance** over the controls operating within the area under review. Since CIL was introduced, the volume of developments dealt with is relatively low, although it is expected to increase steadily over time. Current arrangements deal well with this level of transactions but improvements to deal with the allocation and spending of funds, and associated reporting processes, are in need of some further development.
- 1.8 An early draft of a key Governance document to set out clearly the principles underpinning the relationship between stakeholders and infrastructure providers (both internal and external) requires contributions from the Council's Legal and Finance departments before it can be finalised and formally adopted. It will then be published on the Council's website.
- 1.9 At this relatively early stage the funds received and transferred to Parish Councils is small, but is expected to increase considerably over time and the agreement of working arrangements and establishment of responsibilities will be vital to ensure the correct level of consultation and to avoid disagreement between parties. Levels of authority and methodology of checking the levels and nature of spending need to be determined to be able to confirm that regulations have been complied with.
- 1.10 Communications with Parish representatives have shown that additional tailored guidance would be helpful to improve the level of understanding, both of the process and of the permitted spending areas.
- 1.11 An action plan has been agreed with management to develop these areas and secure further improvement.

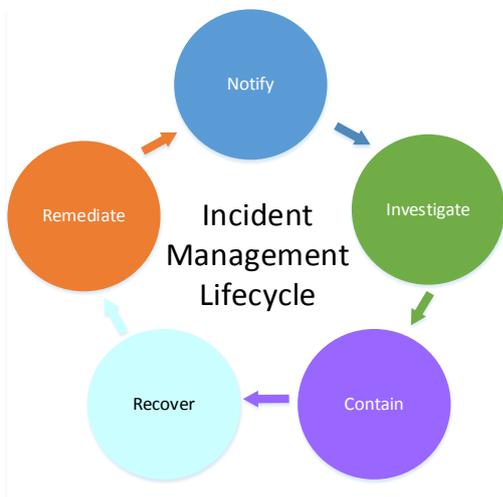
### Parking Enforcement

- 1.12 Horsham District Council's Parking Operations team undertakes parking enforcement on behalf of West Sussex County Council (WSSCC) who, as the "Highway Authority", have a legal responsibility for maintaining traffic flow in accordance with the Traffic Management Act 2004. The County Council has taken the decision to discharge the parking enforcement function within West Sussex, entering into agency agreements with the local District and Borough Councils. This allows the councils to integrate on-street and off-street parking management and enforcement.
- 1.13 The primary objective of the review was to ensure that the Council is providing an effective service to WSSCC in order for them to meet their statutory responsibilities and to provide the environmental and economic benefits to Horsham District Council.
- 1.14 The focus of the audit was on the enforcement of parking within the Controlled Parking Zones and council-owned pay and display car parks. The work did not include the enforcement of the town centre ANPR (Automatic Number Plate Recognition) car parks.
- 1.15 Overall, we were able to provide **Reasonable Assurance** over the controls operating within the area under review. The Si-Dem Parking Management system (used by the Parking Operations team) helps to ensure that parking enforcement is carried out in a controlled manner. The Si-Dem system manages all aspects of the enforcement process from the point that a PCN is issued through to the management and recovery of outstanding debt.

- 1.16 A few actions for improvement were identified relating to access controls which are being addressed. This will help to ensure that user permissions are correctly configured to reflect the role that each user performs within the Parking Operations team and will ensure appropriate separation of duties.

### ICT Incident Management

- 1.17 Incident Management is a subset of Crisis Management. The audit focused on understanding and providing an opinion on the key elements of Crisis Management in relation to ICT security incidents. Incidents are defined by ITIL<sup>1</sup> as "an unplanned interruption to an IT Service or reduction in the quality of an IT service". Not all incidents will relate to a malicious attack on IT systems, it may simply be the failure of a component part of the IT infrastructure. There is however, a growing threat from cyber-attack, and these attacks would be managed through the Incident Management Process.
- 1.18 An Incident Management process should follow the following key stages:



- 1.19 Overall, we were able to provide **Substantial Assurance** over the controls operating within the area under review.
- 1.20 Based on the audit work undertaken, we were able to form an opinion on the effectiveness of the Incident Management process by considering the actions taken by the Technology Services department following an actual attack on the Council's IT systems carried out in May 2018. From the discussions held with officers involved with the incident, and the evidence obtained, it was clear that an effective incident management process was applied that minimised the impact on the Council's services. The incident management process included escalation to appropriate senior management, the Information Commissioner, and the Police.
- 1.21 However, at the time of the incident, the Technology Services department did not have a documented incident management process in place. Following the post incident review, the Head of Technology Services has now produced a documented incident management process. Whilst each event will require a different response plan to manage the incident effectively, having a basic document explaining the required process is important.

<sup>1</sup> ITIL (formerly the acronym, Information Technology Infrastructure Library) is a detailed practise for IT service management.

## 2. Counter Fraud and Investigation Activities

### Proactive Counter Fraud Work

2.1 The Orbis Internal Audit structure came into effect from 1<sup>st</sup> April 2018. The integrated structure was designed to deliver the following benefits:

- Resilience, flexibility and quality;
- Specialisms;
- Sustain strong partnership focus.

A key strand of the structure was the formation of a counter fraud team that would deliver specialist fraud resource across the partnership. This will include the delivery of a fraud risk assessment for Horsham DC, and the rollout of proactive programmes and data analytics (shaped by fraud response plans).

2.2 Summary of Completed Investigations

None to date.

## 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, 97% of high priority actions due had been implemented within agreed timescales.

3.2 Implementation of high and medium priority agreed audit actions (based on a 12 month rolling period):

Period to:	High & Medium Priority Agreed Actions Due	Not implemented	Implemented	% Implemented
30/09/18	31	1	30	97

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 outstanding priority agreed action:

Audit / Agreed Action	Directorate	Due Date	Revised Date	Progress to date
<p><b>Medium Priority</b> <u>Creditors:</u></p> <p>Orders raised as a percentage of invoices received:</p> <p>A target of 60% has been re-introduced for 2017/18 and will be reported within the performance indicators to the Finance and Performance Committee on a quarterly basis.</p>	<p>Corporate Resources</p>	<p>31/12/17</p>	<p>31/03/19</p>	<p><u>December 2018 Update:</u></p> <p>Work is being undertaken to review the most effective and efficient process when using purchase orders. The workflow also requires revisiting. Implementation has slipped due to pressing priorities in budget setting, monitoring and forecasting modules and garden waste process improvements.</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:

- Housing Benefits Subsidy – Lessons Learnt
- Review of bomb / lockdown procedures for Parkside and buildings owned by Horsham D.C.
- Input to the review of the Council’s Constitution
- Review of Housing Company business case

4.2 Through the same process, the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in the 2019/20 plan as part of the overall risk assessment completed during the annual audit planning process:

- Contracts - Procurement (as reported in October).
- ICT Service Desk

The review of the ICT Service Desk has been deferred as there are plans to replace the software system.

## 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	<b>G</b>	Approved by Audit Committee on 11/04/18
	Annual Audit Report and Opinion	By end July	<b>G</b>	2017/18 report approved by Committee on 12/07/18
	Customer Satisfaction levels	90% satisfied	<b>G</b>	100% achieved.
Productivity and process efficiency	Audit Plan – completion to draft report stage	90%	<b>G</b>	57 % completed to draft report stage by end of Q2 (against a Q2 target of 50%)
Compliance with professional standards	Public Sector Internal Audit Standards complied with	Conforms	<b>G</b>	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	<b>G</b>	No evidence of non-conformance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high & Medium priority agreed actions	<b>G</b>	97%
Our staff	Professionally qualified / accredited	80%	<b>G</b>	85% <sup>2</sup>

<sup>2 2</sup> Includes part-qualified staff

## Audit Opinions and Definitions

Opinion	Definition
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	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.
<b>Minimal Assurance</b>	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.