

**INTERNAL AUDIT  
ANNUAL REPORT & OPINION  
2018/2019**



**Horsham  
District  
Council**

## **1. Internal Control and the Role of Internal Audit**

1.1 All local authorities must make proper provision for internal audit in line with the Accounts and Audit Regulations 2015. The full role and scope of the Council's Internal Audit Service is set out within our Internal Audit Charter.

1.2 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

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

## **2. Delivery of the Internal Audit Plan**

2.1 The Council's Internal Audit Strategy and Plan is updated each year based on a combination of management's assessment of risk (including that set out within the departmental and strategic risk registers) and our own risk assessment of the Council's major systems and other auditable areas. The process of producing the plan involves extensive consultation with a range of stakeholders to ensure that their views on risks and current issues, within individual departments and corporately, are identified and considered.

2.2 In accordance with the audit plan for 2018/19, a programme of audits was carried out covering a range of Council departments and, in accordance with best practice, this programme was reviewed during the year and revised to reflect changes in risk and priority.

2.3 All adjustments to the audit plan were agreed with the relevant departments and reported throughout the year to the Audit Committee as part of our periodic internal audit progress reports.

## **3. Audit Opinion**

3.1 No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide reasonable <sup>1</sup>assurance that Horsham District Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2018 to 31 March 2019.

3.2 Further information on the basis of this opinion is provided below but in summary, the results of internal audit activities during the year have been generally favourable, albeit with a small number of partial opinions issued. There have been no minimal assurance opinions. The instances of partial assurance opinions are not considered sufficiently significant in terms of overall organisation governance to impact on our reasonable assurance annual audit opinion.

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<sup>1</sup> This opinion is based on the activities set out in paragraph 4 below. It is therefore important to emphasise that it is not possible or practicable to audit all activities of the Council within a single year.

3.3 Where improvements in controls are required as a result of our work, we have agreed appropriate remedial action with management.

#### 4. Basis of Opinion

4.1 The opinion and the level of assurance given takes into account:

- All audit work completed during 2018/19, planned and unplanned;
- Follow up of actions from previous audits;
- Management’s response to audit findings;
- Ongoing advice and liaison with management, including regular attendance by the Chief Internal Auditor at organisational meetings relating to risk, governance and internal control matters;
- Effects of significant changes in the Council’s systems;
- The extent of resources available to deliver the audit plan;
- Quality of the internal audit service’s performance.

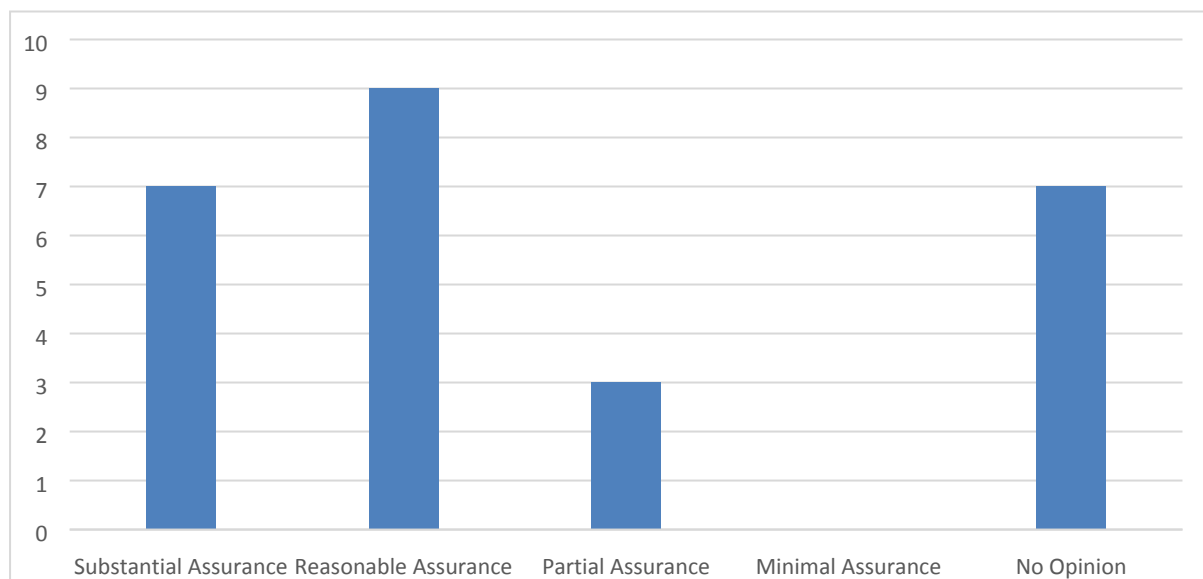
4.2 No limitations have been placed on the scope of internal audit during 2018/19.

#### 5. Key Internal Audit Issues for 2018/19

5.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues, and the overall opinion, have been taken into account when preparing and approving the Council’s Annual Governance Statement.

5.2 The internal audit plan is delivered each year through a combination of formal reviews with standard audit opinions, direct support for projects and new system initiatives, investigations, and ad hoc advice. The following graph provides a summary of the outcomes from all audits finalised during 2018/19 with standard audit opinions:

#### Audit Opinions



5.3 A full listing of all completed audits and opinions for the year is included at Appendix B, along with an explanation of each of the assurance levels. The results of all audit work completed is reported to the Senior Leadership Team (SLT) and Audit Committee throughout the year.

5.4 A total of three audits received partial assurance opinions within the year, as follows:

- Fire Safety
- Contract Management
- Cultural Compliance (Capitol)

5.5 Whilst actions arising from these reviews will be followed up by internal audit, either through specific reviews or via established action tracking arrangements, it is important that management take prompt action to secure the necessary improvements in internal control. As at 31 March 2019, of the 34 high and medium risk agreed actions due by the end of 2018/19, it is pleasing to report that 33 had been implemented within the agreed timescales. The outstanding item is a medium priority action, and it has been agreed that the implementation date be extended to 30<sup>th</sup> March 2020.

5.6 At the time of producing this report, all audit reviews for 2018/19 (including unplanned reviews) had been completed.

### **Key Financial Systems**

5.7 Given the substantial values involved, each year a significant proportion of our time is spent reviewing the Council's key financial systems. Of those completed during 2018/19, all have resulted in either substantial or reasonable assurance being provided over the control environment.

### **Other Internal Audit Activity**

5.8 During 2018/19, internal audit has continued to provide advice, support and independent challenge to the organisation on risk, governance and internal control matters across a range of areas. These include:

- Officer Corporate Governance Group.
- Officer Risk Management Group.
- Officer Project Review Group.
- Broadbridge Heath Leisure Centre Project Team.
- Technology One HR & OD Project Team.

### **Anti-Fraud and Corruption**

5.9 The Orbis IA structure came into effect from 1st April 2018. The integrated structure was designed to deliver resilience, flexibility and quality, specialisms and sustain a strong sovereign focus. A key strand of the structure was the formation of a counter fraud team that would deliver specialist fraud resource across the Partnership.

5.10 There was one fraud and corruption allegation that was investigated during 2018/19. This followed a letter of complaint received from a member of the public. However, there was insufficient evidence to substantiate the claim, and therefore the case was closed.

5.11 It is a mandatory requirement that all staff complete the Council’s e-learning training entitled “Fraud Prevention, Anti-Bribery and Corruption”. As well as the investigation work referred to above, we continue to be proactive in the identification and prevention of potential fraud and corruption activity across the Authority. Progress over the last 12 months is outlined below:

| <b>Priority</b>                                 | <b>Progress to date</b>   |
|---|---|
| <b>Reactive Investigations</b>                  | The counter fraud team is responsible for assessing and evaluating fraud referrals received by each sovereign partner, and then leading on subsequent investigations. The team have implemented a coordinated approach to assessing and logging referrals and adopted consistent procedures for recording investigations.   |
| <b>National Fraud Initiative (NFI) Exercise</b> | Results from the matching exercise were received in Spring 2019 and work is underway to review, prioritise and investigate flagged matches.   |
| <b>Fraud Risk Assessments</b>                   | Fraud risk assessments have been consolidated to ensure that the current fraud threat has been considered and mitigating actions identified.  |
| <b>Fraud Response Plans</b>                     | The Fraud Response Plans take into consideration the fraud risk assessments and emerging trends across the public sector and provide a proactive counter fraud programme. These have been reviewed and aligned to deliver an efficient and effective programme of work across the Orbis partners. This will form the basis of planned proactive work for 2019/20 and include an increased emphasis on data analytics. |

5.12 Whilst it is our opinion that the control environment in relation to fraud and corruption is satisfactory and the incidence of fraud is considered low for an organisation of this size and diversity, we continue to be alert to the risk of fraud. This includes working with local fraud hubs; the aim of which is to deliver a strong and co-ordinated approach to preventing, detecting and responding to fraud.

#### Amendments to the Audit Plan

5.13 In accordance with proper professional practice, the Internal Audit plan for the year was kept under regular review to ensure that the service continued to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews were added to the original 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.
- Review of Information Security Policy Suite.
- Advice and data analytics work to support the implementation of the new Technology One HR system.
- Alternate Weekly Collections post implementation review.

5.14 In order to allow these additional audits to take place, the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in future audit plans as part of the overall risk assessment completed during the annual audit planning process. These changes have been made on the basis of risk prioritisation and/or as a result of developments within the service areas concerned requiring a rescheduling of audits:

- Contracts - Procurement
- ICT Service Desk
- General Data Protection Regulations (GDPR)

## 6. Internal Audit Performance

6.1 Public Sector Internal Audit Standards (PSIAS) require the internal audit service to be reviewed annually against the Standards, supplemented with a full and independent external assessment at least every five years. The following paragraphs provide a summary of our performance during 2018/19, including the results of our first independent PSIAS assessment, an update on our Quality Assurance and Improvement Programme and the year end results against our agreed targets.

### PSIAS

6.2 The Standards cover the following aspects of internal audit, all of which were independently assessed during 2018 by the South West Audit Partnership (SWAP) and subject to a refreshed self-assessment in 2019:

- Purpose, authority and responsibility;
- Independence and objectivity;
- Proficiency and due professional care;
- Quality assurance and improvement programme;
- Managing the internal audit activity;
- Nature of work;
- Engagement planning;
- Performing the engagement;
- Communicating results;
- Monitoring progress;
- Communicating the acceptance of risks.

6.3 The results of the SWAP review and our latest self-assessment found a high level of conformance with the Standards with only a small number of minor areas for improvement. Work has taken place to address these issues, none of which were considered significant, and these are subject to ongoing monitoring as part of our quality assurance and improvement plan.

### **Key Service Targets**

6.4 Performance against our previously agreed service targets is set out in Appendix A. Overall, client satisfaction levels remain high, demonstrated through the results of our post audit questionnaires, discussions with key stakeholders throughout the year and annual consultation meetings with senior officers.

6.5 Significantly, we have completed 100% of the 2018/19 audit plan, exceeding our target of 90%.

6.6 Internal audit will continue to liaise with the Council's external auditors (Ernst & Young) to ensure that the Council obtains maximum value from the combined audit resources available.

6.7 In addition to this annual summary, the Senior Leadership Team (SLT) and Audit Committee will continue to receive performance information on internal audit throughout the year as part of our quarterly progress reports.

## Internal Audit Performance Indicators 2018/19

| Aspect of Service                      | Orbis IA Performance Indicator  | Target                               | RAG Score | Actual Performance  |
|--|---|--------------------------------------|-----------|---|
| Quality                                | Annual Audit Plan agreed by Audit Committee   | By end April                         | <b>G</b>  | Approved by Audit Committee on 10 April 2019  |
|  | 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%  |
| Productivity and Process Efficiency    | Audit Plan – completion to draft report stage   | 90%                                  | <b>G</b>  | 100%  |
| Compliance with Professional Standards | Public Sector Internal Audit Standards  | Conforms                             | <b>G</b>  | Last independent external assessment awarded highest level of conformance. Confirmed in most recent self assessment |
|  | Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act | Conforms                             | <b>G</b>  | No evidence of non-compliance identified  |
| Outcome and degree of influence        | Implementation of management actions agreed in response to audit findings                                     | 95% for high priority agreed actions | <b>G</b>  | 97%   |
| Our staff                              | Professionally Qualified/Accredited   | 80%                                  | <b>G</b>  | 87%   |



## Summary of Opinions for Internal Audit Reports Issued During 2018/19

**Substantial Assurance:***(Explanation of assurance levels provided at the bottom of this document)*

| <b>Audit Title</b>           | <b>Department</b>    |
|------------------------------|----------------------|
| Cash & Bank                  | Finance              |
| Accounts Payable             | Finance              |
| Payroll                      | Finance              |
| IR35                         | Finance              |
| Housing Benefits             | LGSS                 |
| ICT Incident Management      | Technology Services  |
| Cultural Compliance (Events) | Economic Development |

**Reasonable Assurance:**

| <b>Audit Title</b>     | <b>Department</b>     |
|------------------------|-----------------------|
| Treasury Management    | Finance               |
| Accounts Receivable    | Finance               |
| Council Tax            | LGSS                  |
| Business Rates         | LGSS                  |
| Health & Safety        | HR & OD               |
| Cyber Security         | Technology Services   |
| Performance Management | Corporate Performance |
| CIL                    | Development           |
| Parking Enforcement    | Parking Services      |

**Partial Assurance:**

| <b>Audit Title</b>            | <b>Department</b>     |
|-------------------------------|-----------------------|
| Contract Management           | Corporate Resources   |
| Fire Safety                   | Property & Facilities |
| Cultural Compliance (Capitol) | Leisure & Culture     |

**Other Audit Activity Undertaken During 2018/19 (including direct support for projects and new system initiatives and grant audits):**

| <b>Audit Title</b>  | <b>Department</b>           |
|---|-----------------------------|
| Housing Benefits Subsidy – Lessons Learnt   | Corporate Resources         |
| Review of bomb / lockdown procedures for Parkside and buildings owned by Horsham D.C  | Housing & Community         |
| Input to the review of the Council’s Constitution                                     | Legal Services              |
| Review of Housing Company Business Case   | Housing & Community         |
| Review of Information Security Policy Suite   | Technology Services         |
| Data analytics work to support the implementation of the new Technology One HR system | HR & OD                     |
| Post Implementation Review of the Alternative Weekly Collections project.             | Waste, Street Scene & Fleet |

**Audit Opinions and Definitions**

| <b>Opinion</b>               | <b>Definition</b>   |
|------------------------------|---|
| <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. |