Internal Audit and Counter Fraud

Quarter 2 Progress Report 2019/20

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Horsham District Council

1. Summary of Completed Audits

Cultural Compliance – Property and Facilities

1.1   The Property and Facilities Team delivers management services across the Council; leads on property development and investment activity; and manages assets and property within the Council's investment and operational portfolios.

1.2   The purpose of the audit was to provide assurance that:

- Management has put in place appropriate arrangements for monitoring delivery of the service and assessing its performance and effectiveness;

- There is an adequate budget setting and monitoring process in place, and that appropriate measures are taken in a timely manner to address budget pressures;

- Expenditure is only incurred for legitimate Council business and is in line with the relevant procurement process;

- Where chargeable services are delivered, appropriate prices are set and regularly reviewed and that all income attributable to the work undertaken by the service is invoiced correctly;

- There is effective staff supervision and performance management including administration of staff development and well-being in accordance with the Council's procedures;

- Assets purchased for the Council are held securely and appropriately managed.

1.3   Overall, we were only able to provide an opinion of **partial assurance** as a number of areas of non-compliance were identified.

1.4   The following improvements have therefore been agreed with management as a result:

- The budget monitoring and forecasting process has been strengthened to help enable monthly reviews to be completed within expected timescales. The Head of Property and Facilities has rebuilt the budget on a bottom up basis for the current financial year. This means that budgets more accurately reflect historic expenditure trends which will enable improved monitoring going forward;

- Purchase orders will be raised, where appropriate, when the purchase is outside of contractual arrangements or not based on a variable price;

- Expenditure limits on purchase cards have been reduced to a single transaction limit of £250 and a monthly credit limit of £750. The Property & Facilities Team will only purchase items for their team and not on behalf of other services;

- All relevant contractual information will be provided to the Council's Procurement Team for inclusion in the central contracts register, and a contract for a service currently being provided will be signed;

- The corporate induction process has now been completed for all new starters. All overdue online mandatory HR training modules had been completed prior to the final audit report being issued.

- A follow up will be conducted as part of the 2020/21 audit plan to confirm that all agreed actions have been implemented.

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Emergency Planning

1.5   An emergency may be defined as an event or situation which threatens serious damage to human welfare, the environment, and national security (war or terrorism). Such an event will require a response beyond the everyday resources of the emergency services and those organisations that support them.

1.6   The Council, under the Civil Contingencies Act 2004, is a Category One responder and has a number of duties under this Act:

- Assess the risk of emergencies occurring and use this to inform contingency planning;

- Put in place emergency plans;

- Put in place business continuity management arrangements;

- Put in place arrangements to make information available to the public about civil protection matters and maintain arrangements to warn, inform and advise the public in the event of an emergency;

- Share information with other local responders to enhance co-ordination and efficiency, and, provide advice and assistance to the business and voluntary organisations regarding business continuity management.

1.7   As the definition of an emergency includes terrorism, the Counter-Terrorism and Border Security Act (2019) was included as part of this audit to consider the Council's responsibilities in respect their 'Prevent' duty.

1.8   Emergency Planning for the Council is coordinated by the Emergency Planning Officer, who is part of the Health and Wellbeing & Community Safety Team, reporting to the Health & Wellbeing/Community Safety Manager.

1.9   The purpose of the review was:

- To ensure that the Council is in compliance with the Civil Contingencies Act 2004;

- To ensure that, for civil emergencies, proper processes are in place; resources have been identified; roles and responsibilities have been clearly defined; and appropriate training has been provided;

- To ensure that the Counter-Terrorism and Border Security Act 2019 has been considered and mitigating action has been implemented by the Council.

1.10   Overall, we found a range of control weaknesses and we were only able to provide an opinion of **partial assurance.**

1.11   The following areas for improvement have been agreed with management as a result:

- A 'Prevent' risk assessment and strategy/action plan will be developed to satisfy the Council's 'Prevent' duty. In addition, all front-line staff who deal with internal and external customers will be required to complete the Counter-Terrorism Prevent e-learning training;

- The Council's Emergency Plan has been brought up to date to reflect changes in management responsibilities following the departure of a senior officer who fulfilled a pivotal role in the process;

- The Emergency Communications and Strategy Plan will be reviewed, updated, approved and distributed to all relevant staff as soon as possible. In addition, training will be provided in the use of social media communications in the event of an emergency;

- Responsibility for sense-checking departmental business continuity plans (annually) has been formally assigned to the Council's Emergency Planning Officer;

- A proactive strategy/plan will be developed, alongside Economic Development, to provide advice and assistance to local businesses and voluntary organisations to enable them to develop their own business continuity management plans;

- The Rest Centre Plan will be updated to include all current members of staff who are part of 'Silver Command', rest centre managers and rest centre volunteers.

Contract Management: Supplier Resilience

1.12   A recent analysis of expenditure showed that Horsham District Council spends, annually, around £23.5m on externally sourced goods, works and services. This is spread across 1,600 suppliers with annual expenditure in excess of £3m in some cases.

1.13   Expenditure covers major construction/engineering works; the provision of a commercial vehicle fleet; and also services, both back office support to the Council itself, and front line services to the District's residents.

1.14   Reliance on contractors for the provision of these goods, works and services requires effective contract management to ensure that the Council receives the level and standard of works required (and paid for). It also increases risk to the Council as contractors are not under its direct control and less may be known about them than would be the case for directly provided services. This can be complicated further by the presence of extended supply chains and interdependencies amongst contractors who may be carrying out work for each other, so the failure of one supplier could have a knock-on effect on others

1.15   A number of high-profile supplier failures - most significantly the collapse of Carillion – has focussed attention on these risks and public bodies are having to reassess the way they manage their suppliers. Furthermore, there is significant uncertainty over the effect that Brexit will have on the movement of both goods and labour in a post-Brexit environment and how this will affect the Council's suppliers.

1.16   It is, therefore, essential that the Council has a sound understanding of its suppliers and the impact the failure of either suppliers or their ability to deliver contracted services may have. Whilst the Council has a clear responsibility to engage with its suppliers, this responsibility may become blurred where contractors are appointed through frameworks, which carry out varying levels of checks themselves.

1.17   The purpose of the review was to ensure:

- Due diligence checks identify, in a timely manner, contractors that are at risk of becoming insolvent; do not maintain adequate public liability insurance; or do not have effective business continuity or risk management arrangements in place.

- Market and industry intelligence is sufficient to allow the early enough identification of suppliers or market sectors at risk of failing to enable appropriate steps to be taken.

- Effective business continuity arrangements mitigate the effects of any supply chain failures.

1.18   We found that a number of expected controls were missing, and therefore we were only able to provide an opinion of **partial assurance.**

1.19   The following improvements have been agreed, including a number of fundamental contract management controls which have been built into the Council's documented procedures:

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- The Council's critical contracts will be identified;

- Supplier failure will be included in the Council's risk registers for critical contracts;

- The loss of a major supplier will be included in business continuity plan risk assessments;

- Departmental business continuity plans will be checked upon receipt and challenged if they fail to provide appropriate mitigation against the risk of supplier failure;

- For critical contracts, financial health checks will be undertaken on an annual basis;

- For critical contracts, insurances (for example public liability) will be checked annually;

- For critical contracts, Heads of Service will check their contractors' business continuity plans (where appropriate).

General Data Protection Regulations

1.20 As part of the Internal Audit Plan for 2019/2020 we carried out a review of Horsham District Council's key controls and processes to support compliance with the General Data Protection Regulation (GDPR). In doing so, adherence to the provisions of the existing Data Protection Act 2018 (DPA) were also assessed.

1.21 Failure to comply with the GDPR could result in reputational damage and substantial fines by the Information Commissioner's Office of up to 4% of annual global revenue or 20 million euros, whichever is the greater.

1.22 The Information Commissioner's Office '12 Steps to GDPR Compliance' was used as a basis for our audit programme. Testing included discussions with, and evidence provided by, the Data Protection Officer and the officer who leads on Information Governance.

1.23 Notably there has been substantial effort towards ensuring compliance. However, in specific cases despite the controls in place, there remain a few areas where improvement is required to strengthen the current control framework to meet current GDPR requirements.

1.24 We were able to provide **Reasonable Assurance** over the controls operating within the area.

1.25 A summary of the status against each of the 12 steps is outlined in the following table:

Ref	ICO Step	Status		Ref	ICO Step	Status
1	Governance & Awareness	Amber		7	Consent	Green
2	Information You Hold	Amber		8	Children	N/A
3	Communicating Privacy Information	Amber		9	Data Breaches	Amber

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4	Individuals Rights	Green		10	Data Protection by Design and Data Protection Impact Assessments	Amber
5	Subject Access Requests	Green		11	Data Protection Officers	Green
6	Lawful Basis for Processing Personal Data	Green		12	International	N/A

1.26   We agreed six medium priority actions with management to manage the risks associated with non-compliance. These include the availability of policies and procedures, regularly reviewing and recording the review of privacy notices; improving the data breach register; and maintaining a central log of third party contracts.

Asset Management (ICT Equipment)

1.27   The Technology Services department is responsible for delivering IT services for the Council. The team provides equipment to approximately 370 employees, casuals, contractors and Members. There were 566 individual computers listed on the Asset Register (as at June 2019).

1.28   In 2017, the Council carried out a major refresh of IT equipment, in order to prepare for the implementation of Windows 10. The Council obtained 450 new computers consisting of 231 laptops, 121 tablets and 98 Desktop PCs, replacing all of the existing stock. In order to encourage more "agile working", a decision was taken to issue laptops and/or tablet computers to most users rather than fixed desktop PCs. Whilst it is recognised that "agile working" generally improves productivity and increases resilience in an organisation, new risks are introduced with the large number of portable devices, including theft, damage and potential breaches of confidentiality. As a result of this refresh, the Council is now placing greater reliance on the effective control of IT equipment.

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

- Appropriate governance arrangements are in place for the procurement and disposal of hardware assets;

- Accurate and current information is held of all of the Council's hardware assets;

- All hardware assets are returned to Technology Services when an employee leaves the Council or no longer requires the equipment;

- To ensure that maintenance is not carried out on equipment that is still protected by consumer legislation or when a warranty is still in place.

1.30   We were able to provide **Reasonable Assurance** over the controls operating within the area under review because effective controls are in place for the allocation of ICT equipment to new users; the maintenance of the asset register; and the recovery of IT assets when someone leaves the Council.

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1.31   There is, however, a requirement to introduce a formally documented policy and procedure for the disposal of redundant computers and other IT equipment that are surplus to requirements. We identified a significant number of items of redundant equipment housed within the store cupboards as well as broken and unserviceable computers that the Council is retaining that may have a residual value. These could be sold through the Council's eBay account or be offered to a recycling company.

1.32   Two medium and six low priority actions (two of which have been implemented) were agreed with management to manage the associated risks identified with these findings.

Year of Culture (Project Review)

1.33   The Horsham Year of Culture (YOC) is a celebration of culture and heritage taking place across the whole of the district. The aim of the project was to raise the profile of culture and heritage within the district, with a programme of events throughout 2019, leaving a cultural legacy that will be enjoyed in future years.

1.34   The total cost of the project was expected to be in the region of £746k (as at 2/8/19), being funded through contributions from the Council (£434k over three years), external contributions (e.g. sponsorship) and income from ticket sales for events.

1.35   The primary objective of this audit was to provide assurance that effective controls are in place for the overall management of the YOC project that will help to ensure that the project is a success and outcomes are achieved.

1.36   The purpose of the audit was to provide assurance that:

- Appropriate governance procedures are in place for the project; risks and issues are identified, understood and appropriately managed; and that sign-off is obtained from appropriate officers where required;

- Arrangements are in place that will enable effective monitoring of project objectives;

- Effective processes are in place for the financial management of the overall project;

- Key projects have been identified and are being appropriately managed.

1.37   The audit review was undertaken mid-way through the year so that, should any fundamental control weaknesses be identified, there would be an opportunity to take appropriate remedial action during the life of the project. As the project was still in progress during the audit review, we did not provide an assurance opinion. However, at the time of the review, we concluded that the overall project governance was working effectively. We found that:

- The Year of Culture (YOC) project had a defined and documented governance structure in place.

- The Senior Leadership Team (SLT) receives regular progress updates.

- A risk register is maintained for the project, which is well detailed providing information about the risks, mitigations, owners and review dates.

- An issues log is maintained by the project board, which is updated and reviewed at each board meeting.

- The budget is monitored on a regular basis with updates provided at SLT meetings and to the project board on a fortnightly basis.

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- Whilst an overspend position may not be considered ideal, Members are aware of a potential overspend of up to £140k as detailed in the January 2019 Cabinet report.

- The Knepp Castle project (Midsummers Night's Dream performance) was to be the largest single event of the YOC in terms of financial investment by the Council (initial estimate £150,000). However, a decision was made to cancel the event on May 2nd 2019. This decision originated from the newly appointed Head of Service following a review of the risks surrounding the project. In broad terms, the costs were higher than expected and ticket sales fell well short of expectations. The likely outcome of continuing to run this event would have resulted in a substantial financial loss to the Council. It is our opinion that there was sufficient evidence and justification to support the decision.

1.38   We identified some areas for improvement as part of our review, and the following actions were therefore agreed:

- Consideration will be given to reviewing the project objectives and outcomes for the YOC with a view to amending them to 'SMART' objectives. This would be useful at the end of the project when assessing the overall success of the project.

- Monitoring of the project objectives/outcomes will be introduced to enable action to be taken during the project where it appears that specific outcomes may not be achieved.

- Project underspends / overspends will be forecasted in the monthly returns submitted to the Finance Team. In addition, the project board will meet with Finance on a regular basis to ensure that budget figures are correct and effective budget monitoring takes place.

- When involving Finance as part of monitoring the overall financial position for the YOC, they will also be given oversight of the individual budgets for the key projects to help ensure that effective budget monitoring is taking place.

- A lessons learned exercise will be undertaken, by the project board, to ascertain why the Knepp Castle event was cancelled. This will help to prevent similar outcomes for events like this occurring in the future.

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.

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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.

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. Fraud awareness training is scheduled to take place for all directors and senior managers in January 2020.

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
30/09/19	73	1	72	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
Medium Priority *Purchase Orders (POs):* Review the take up of purchase orders and encourage usage, with the expectation that the use of PO's (as measured by POs raised as a percentage of invoices received) will increase.	Corporate Resources	31/12/17	31/03/2020	November 2019 Management Update: The Senior Leadership Team (SLT) has agreed that services will be encouraged to review their processes and use purchase orders where possible. Finance will hold training sessions to help services understand the process involved and also the benefits of using a purchase order. The take up of purchase orders is being reviewed and

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				the issue will be revisited, but for now, the expectation is that the use of PO's will increase over the next few months.

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. Whilst the audit plan continues to be on track, the team will be under pressure to deliver all of the remaining work within the agreed allocation of days. This is due to the additional work undertaken (as outlined above), and also due to the extended work involved in finalising a number of audits where the overall opinion has been *partial* or *minimal*.

4.3 An early conversation has taken place with the Director of Corporate Resources outlining available options in the event of further additional unexpected work / extensions of work between now and the end of the current financial year.

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	64% completed to draft report stage at the end of Quarter 2, against a target of 45%
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	96.3%[1]

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

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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.

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