

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

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## 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 1<sup>st</sup> 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 22<sup>nd</sup> 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><b>Medium Priority</b> <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	<b>G</b>	Approved by Audit Committee on 10 April 2019
	Annual Audit Report and Opinion	By end July	<b>G</b>	2018/19 report presented to the Audit Committee on 11 July 2019
	Customer Satisfaction levels	90% satisfied	<b>G</b>	100%
Productivity and process efficiency	Audit Plan – completion to draft report stage	90%	<b>G</b>	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	<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-compliance 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>	99%
Our staff	Professionally qualified / accredited	80%	<b>G</b>	92.9% <sup>1</sup>

<sup>1</sup> Includes part-qualified staff and staff currently training for a professional qualification.

## 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.