

**INTERNAL AUDIT  
ANNUAL REPORT & OPINION  
2019/2020**



**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 1972 Local Government Act (S151) and 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 corporate and departmental 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 2019/20, 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. This has included responding to, and investigating, allegations of fraud and other irregularities.

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 2019 to 31 March 2020.

3.2 Further information on the basis of this opinion is provided below. Overall, whilst the majority of audit opinions issued in the year were generally positive, internal audit activities have identified a number of areas where the operation of internal controls has not been fully effective, as reflected by the minimal assurance opinion and four partial assurance reports issued in the year.

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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:

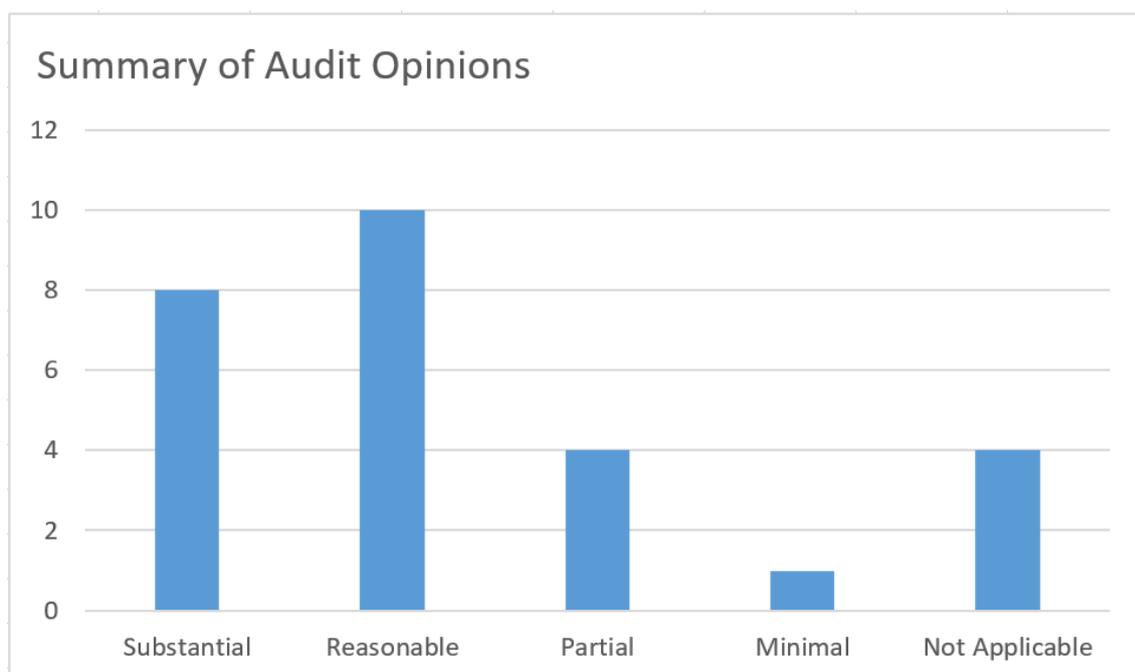
- All audit work completed during 2019/20, planned and unplanned;
- Follow up of actions from previous audits;
- Management’s response to audit findings;
- Ongoing advice and liaison with management, including regular attendance by the Chief Internal Auditor at organisational meetings relating to risk, 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 2019/20.

#### 5. Key Internal Audit Issues for 2019/20

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 2019/20:



5.3 A full listing of all completed audits and opinions for the year is included in 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 five audits received minimal or partial assurance opinions within the year, as follows:

- Hop Oast (Cultural Compliance)
- Accounts Receivable
- Emergency Planning
- Contract Management (Supplier Resilience)
- Cultural Compliance (Property)

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.

5.6 At the time of producing this report, all audit reviews for 2019/20 (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 2019/20, all have resulted in either substantial or reasonable assurance being provided over the control environment, with the exception of the Accounts Receivable System. 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.

### **Other Internal Audit Activity**

5.8 During 2019/20, 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. This includes participation in the following groups:

- Officer Corporate Governance Group.
- Officer Risk Management Group.
- Officer Project Review Group.

5.9 As well as actively contributing to, and advising these groups, we utilise the intelligence gained from the discussions to inform our own current and future work programmes to help ensure our work continues to focus on the most important risk areas.

## Anti-Fraud and Corruption

5.10 During 2019/20, the Internal Audit Counter Fraud Team continued to deliver both reactive and proactive fraud services across the Orbis Partnership.

5.11 A fraud awareness session was delivered at the January 2020 Manager's Forum meeting which informed senior managers of the latest internal and external fraud risks facing local government; some recent high profile investigations the team had been involved in; and the value of having Internal Audit conduct independent investigations where allegations of financial irregularities are identified.

5.12 Any internal control weaknesses identified during our investigation work are reported to management, and actions for improvement are agreed. This work is also used to inform future Internal Audit activity.

5.13 The team logged two fraud allegations for Horsham DC under the Council's Counter Fraud Strategy and Framework. These cases were identified as a direct result of scheduled Internal Audit work, and through employee whistleblowing. In particular, as reported in April, a mileage claim irregularity was investigated by the Orbis Internal Audit Counter Fraud Team. This culminated in a formal disciplinary hearing which led to a dismissal.

5.14 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. Internal Audit continues to be proactive in the identification and prevention of potential fraud and corruption activity across the Authority and in raising awareness amongst staff.

## Amendments to the Audit Plan

5.15 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:

- Review of of the 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.

5.16 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:

- Car Parking Income (deferred until 2020/21).

## 6. Internal Audit Performance

6.1 The 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 2019/20, 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 2020:

- 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 independent South West Audit Partnership 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 2019/20 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 2019/20

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>	2018/19 report approved by Committee on 11 <sup>th</sup> 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>	100%
Compliance with Professional Standards	Public Sector Internal Audit Standards	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  Quarter 4 2019/20 - Internal Self Assessment completed
	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>	98%
Our staff	Professionally Qualified/Accredited	80%	<b>G</b>	93%

## Summary of Opinions for Internal Audit Reports issued during 2019/20

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

<b>Audit Title</b>	<b>Department</b>
Treasury Management	Finance
Cash & Bank	Finance
Business Rates	LGSS
Fire Safety (Follow up)	Property
Homelessness Reduction Act 2017	Housing
Print Procurement	Communications
Server Room	Technology Services
Backup & Recovery	Technology Services

**Reasonable Assurance:**

<b>Audit Title</b>	<b>Department</b>
Accounts Payable	Finance
Housing Benefits	LGSS
Council Tax	LGSS
Payroll	Finance
Capital Programme	Finance
Technology One (Application Controls)	Finance
Purchase Cards	Finance
Asset Management ICT Equipment	Technology Services
GDPR (General Data Protection Regulations)	Legal Services
Housing Company	Housing / Property & Facilities

**Partial Assurance:**

<b>Audit Title</b>	<b>Department</b>
Accounts Receivable	Finance
Emergency Planning	Community Services
Contract Management (Supplier Resilience)	Corporate
Cultural Compliance (Property)	Property & Facilities

**Minimal Assurance:**

<b>Audit Title</b>	<b>Department</b>
Cultural Compliance (Hop Oast Depot)	Waste Management

**Other Audit Activity Undertaken During 2019/20 (including direct support for projects and new system initiatives and grant audits):**

<b>Audit Title</b>	<b>Department</b>
Year of Culture Project Review	Leisure & Culture
Advice and Support for New Technology One HR System	HR & OD
Horsham/LGSS File Transfer Process	Finance / Technology Services
Officer Declarations of Interest – System Improvements	Corporate

**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.