

Internal Audit and Counter Fraud Quarter 1 Progress Report 2020/21

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1. Summary of Completed Audits

Budgetary Control

- 1.1 Budget management processes are key to ensuring that the Council has efficient mechanisms to align financial resources to corporate priorities, and to allow the early identification of actual and potential overspends. Where budgets are developed without using all relevant information, there is an increased likelihood of overspend, resulting in increased pressure on Council services.
- 1.2 The budget for 2019/20 was approved by Full Council on 13 February 2019, the net budget requirement was set at £10.4 million.
- 1.3 Budget setting for the Council is a challenging process, and the unprecedented events of COVID-19 will inevitably have a significant impact on the Council's planned budget and general reserves for 2020/21.
- 1.4 Most of the findings in this report were based on a review of the control environment prior to the national response to COVID-19. Any assurance given does not extend to interim measures or changes to management arrangements implemented due to COVID-19
- 1.5 The purpose of the audit was to provide assurance that:
 - A properly evidenced and accurate budget is set and approved in accordance with the required timeframes;
 - Budget monitoring reports to senior managers and Members are accurate, consistent and timely;
 - There is an effective budget monitoring process embedded throughout the organisation;
 - Where adverse budget reporting is identified, concerns are escalated, and remedial action is taken to enable budgets to be met; and
 - Savings are being delivered in accordance with the plan for the financial year.
- 1.6 As a result of this work, we were able to provide **reasonable assurance** over the controls operating within the area under review.
- 1.7 A properly evidenced and accurate budget has been set and approved within pre-determined timescales, and budget holders receive good support, appropriate training, and challenge from the Finance team to help them carry out their responsibilities. The budget monitoring reporting and escalation process is effective and is outlined in the Council's financial procedure rules.
- 1.8 Whilst the compliance rate for budget monitoring returns has improved compared to previous years, there is still room for improvement. Budget holders have been reminded by the Head of Finance of the importance of timely budget monitoring returns in the 2020/21 budget reporting cycle.
- 1.9 When completing budget monitoring returns, it is important that budget holders complete accurate and timely forecasts, especially when potential overspends and income shortfalls are envisaged. Budget holders have been reminded of the importance of early and comprehensive forecasting, and Heads of Service have been tasked by the Senior Leadership Team (SLT) with finding new medium-term financial savings to help mitigate the longer term impact of recession.

Community Hubs – Covid-19 Red Response

- 1.10 On 30 March 2020, shortly after the Covid-19 lockdown, Internal Audit was asked to review the interim processes implemented by the Council in their community response to COVID-19, to ensure that appropriate controls were in place and operating as expected.
- 1.11 As part of the response to the COVID-19 pandemic, central government issued guidance on four support options available to residents, these were stated as follows:
- Government support for residents who have been identified as medically vulnerable by the National Health Service (NHS), the “shielded group”;
 - District and borough council support for residents who do not meet the criteria to receive direct central government support, but still require assistance;
 - Support from community hubs for residents; and
 - Carer’s support for residents, which is a dedicated service that offers general help and guidance.
- 1.12 In response to the COVID-19 pandemic the Council provided a service to the residents of the district who were not eligible for central government support. This included purchasing of essential items for those who were unable to obtain food shopping or medical supplies for themselves, for example, due to isolation with no local support.
- 1.13 The Council’s response to COVID-19 had to be reactive and immediate. With this in mind, the processes were evolving and ‘agile’ in nature. A detailed and comprehensive assessment of risks, controls and written procedures was completed retrospectively.
- 1.14 It was agreed at the outset that this would be a non-opinion piece of work. The control processes were being developed at the time of our review, and our primary objective was to help support the organisation in its response to an evolving emergency situation.
- 1.15 Internal audit worked closely with the responsible Head of Service, and the following improvements to working practices and controls were agreed and implemented:
- Separation of duties between receiving / obtaining requests from vulnerable residents, and purchasing essential items such as food and medical supplies.
 - A requirement to evidence who had used the Council’s purchase cards, and improve record keeping, establishing a clear management trail for each transaction.
 - The procedure for recording payments was strengthened and the payment log was amended to include:
 - Request number;
 - Resident’s name, address, contact number and email address (if provided);
 - Date the case was created;
 - Payment status (open or closed);
 - Value and details of items purchased;
 - Details of the officer who purchased the items;
 - Details of the Officer who took the payment; and
 - Confirmation that payment had been received by the Council from the resident.

- Working practices and control processes were documented to help ensure consistency of approach.
- All future purchase card transactions will be reviewed by the Health & Wellbeing / Community Safety Manager.
- Transaction details are being kept centrally, being scanned and saved against the purchase card transaction recorded in the Council's financial system, Technology One (T1).
- There will be a comprehensive reconciliation of spend between items requested and recorded on the "Red Response" database and items purchased.

1.16 As at 18/07/2020, there was only one customer payment outstanding, which was being pursued. All other costs incurred through purchase card expenditure had been recovered.

1.17 The response from the Council to support the residents of the district throughout the pandemic has been efficient and effective. Processes have been documented, albeit retrospectively due to circumstances, and have been amended where necessary to improve controls and mitigate potential risks. This process is now being supported, where necessary, by the Council, however, it is now being administered by Age UK and the community hubs. The Council procedures and processes have been shared with these organisations to ensure consistency in their response.

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.

National Fraud Initiative (NFI)

2.2 Work is underway to prepare for the forthcoming NFI data matching exercise. This work is being supported by the Orbis Counter-Fraud Team, and data for a number of systems spanning several departments is due to be uploaded to the NFI secure website by 9th October 2020. It is anticipated that the output reports will be made available early in 2021.

Fraud Risk Assessments

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. The outcomes from the assessment help to inform the annual internal audit plan

Counter-Fraud Strategy and Framework

2.4 The Orbis Counter Fraud team has developed a Counter-Fraud Strategy and Framework for Horsham. This has been approved by the Council's Senior Leadership Team and is published on the Council's Intranet.

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 1, 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
30/06/20	84	1	83	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 outstanding priority agreed action:

Audit / Agreed Action	Directorate	Due Date	Revised Date	Progress to date
<p>Medium Priority</p> <p><u>Purchase Orders (P.Os):</u></p> <p>To 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	31/03/21	<p><u>September 2020 Management Update:</u></p> <p>The impact of Covid-19 has set back plans to roll out purchase order training. Other day to day activities have been prioritised such as payments of business grants, and remote year end closedown.</p> <p>Plans for the roll out of training have also now been put on hold due to social distancing and remote working. It is felt that remote training in a technical area will not be efficient. This will be revisited as necessary.</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 the Community Hubs – Covid-19 Red Response;
- Purchase Cards, including areas of spend.

4.2 Through the same process, audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in the 2021/22 plan as part of the overall risk assessment completed during the annual audit planning process:

- Capitol Bar and Catering Facility;
- Volunteers.

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 the Audit Committee on 1 st April 2020.
	Annual Audit Report and Opinion	By end July	G	2019/20 report presented to the Audit Committee on 15 th July 2020.
	Customer Satisfaction levels	90% satisfied	G	100%
Productivity and process efficiency	Audit Plan – completion to draft report stage	90%	A	14.3% completed to draft report stage at the end of Quarter 1, against a target of 22.5%.
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. June 2020 - Internal Self-Assessment completed, no major areas of non-compliance with PSIAS identified.

				June 2020 - Internal Quality Review completed, no major areas of non-compliance with our own processes identified.
	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	93% ¹

¹ Includes part-qualified staff

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.