

Internal Audit and Counter Fraud Quarter 3 Progress Report 2020/21

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1. Summary of Completed Audits

BACS (2020/21)

- 1.1 The Council processes BACS payments via a secure channel for submitting payments directly to the BACS system. The Council uses BACS to process transactions in relation to Accounts Payable and Council Tax/NNDR. Housing Benefit payments, the processing of which is outsourced to LGSS, are also made via Horsham District Council's BACS system, by LGSS staff.
- 1.2 This audit looked to review the Council's BACS processing arrangements, to ensure adequate controls exist to prevent unauthorised amendments of BACS files and subsequent inappropriate payments.
- 1.3 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- BACS files can only be created by authorised officers and are subject to appropriate validation;
 - The transfer of BACS files is subject to robust controls;
 - Processed BACS files are subject to verification and validation.
- 1.4 The audit concentrated on the use of the BACS system for processing payments. The use of BACS for income collection was not covered as part of this audit. Payments made via the Horsham District Council BACS system by LGSS, in relation to Housing Benefits, were only considered from the point that they enter Horsham District Council's systems.
- 1.5 We were only able to provide **Partial Assurance** over the controls operating within the area under review because:
- Issues were identified concerning separation of duties in the processing of BACS; it is possible for the same individual to extract payment information from Technology One, upload it to the Bacway system and electronically sign the submission. Sample testing showed a lack of separation of duties in all six payment runs reviewed.
 - Team procedures are in place to help ensure that BACS files are only processed once, and validation by email takes place by a second officer. However, this occurs outside of the Bacway system and there are no technical controls in place to ensure this validation is completed, nor are any manual checks routinely made.
 - Prior to being processed, BACS files were found to be manually moved between folders and renamed following download which leaves the file vulnerable to manipulation. In addition, if this process is not completed successfully, there is a possibility that duplicate payments could be made.
 - While the above weaknesses have been identified, it is noted that all of our sample of BACS payment runs examined in this audit were found to have been processed accurately and in line with current procedures.
- 1.6 Actions have been agreed with management to rectify the concerns identified within the control environment and one of these actions was implemented prior to the final report being issued.

Community Lottery (2020/21)

- 1.7 The Council established a community lottery scheme in August 2019, which is managed by an external lottery management company, Gatherwell Ltd. At the time of the audit, there were 81 good causes that had signed up to the lottery which had generated approximately £45k.
- 1.8 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- Governance arrangements for the set up and operation of the community lottery have been established and are operating effectively, with a comprehensive and agreed contract in place between the Council and the external lottery management company.
 - There are appropriate controls in place to monitor, report and review fluctuations in ticket sales to ensure these can cover the costs of administering the community lottery.
 - Appropriate procedures and processes are in place to ensure all money received through lottery ticket sales is received by those genuine local good causes that the lottery aims to support.
- 1.9 Our work identified areas where improvement was required and, as a result, we were only able to provide an opinion of **Partial Assurance**. In giving our opinion, we recognise that the community lottery relates to a relatively small area of the Council's operations. However, it is important to note that monies received by the Council from the community lottery need to be allocated to good causes across the district. Therefore, it is important that processes are robust to help ensure these monies are received in full, and monies are distributed within a reasonable timescale.
- 1.10 In response to this audit, an action plan was agreed with management that included measures to:
- Seek advice from the Council's Procurement Manager when the contract in place with Gatherwell Ltd, the external lottery management company, ends, to ensure that the appropriate procurement process is followed.
 - Document procedures and processes for the operation of the community lottery, including: the approval of participating organisations/good causes; mitigating potential conflicts of interest; making timely payments; checks and balances/reconciliation of monies received by the Council; and the termination of the community lottery.
 - Undertake periodic reconciliations between the expected and actual community lottery funds received by the Council and subsequently allocated to good causes. This will be undertaken with the support and assistance of the Finance team.

Procurement (2020/21)

- 1.11 According to the most recent analysis of expenditure (2018/19), Horsham District Council had controllable expenditure of around £14.5m with 1,154 suppliers. With this level of expenditure, it is essential that the Council has sound procurement practices to ensure that maximum use is made of its limited resources and that the use of public monies is transparent.

- 1.12 The framework for procurement activity is set out in the Council's Contract Procedure Rules, which form part of the Council's Constitution
- 1.13 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- All expenditure is made in compliance with the Council's Contract Procedure Rules, and is subject to approval in accordance with delegated levels of authority;
 - Conflicts of interest are managed, and procurement decisions are made in the interests of the Council;
 - Controls ensure that contracts are in place to support major expenditure.
- 1.14 As a result of our work, we were able to provide **Reasonable Assurance** over the controls in place.
- 1.15 There is a clear framework in place for procuring managers to follow, outlining the steps that should be taken and the approvals required at each point within the process.
- 1.16 However, we did identify a number of areas for improvement which are outlined below:
- Heads of Service will continue to be expected to enforce the Procurement Code as part of their day to day duties.
 - Where aggregate spend has breached the EU threshold for a particular supplier within the audit sample, a waiver will be sought for two years. The spend profile for this supplier will be reviewed in early 2023, and procurement arrangements will then be reconsidered taking into account the post-COVID situation and any changes in legislation.
 - In the event that we are accessing a framework agreement for professional legal advice, the Legal Services Business Manager will ensure that all of the necessary contractual paperwork and approvals are sought. From 1 April 2021, agency staff for Legal Services will be accessed via a new Dynamic Purchasing Agreement.
 - A work request has been raised with the Customer & Digital Services Department to make the exemption approval process electronic.
 - The Procurement team will continue to send out a quarterly reminder to Heads of Service requesting that they update the Council's Contracts Register with any contracts within their service area.
 - The Director of Corporate Resources will continue to request an annual update of declarations of interest from all staff. Heads of Service are responsible for ensuring that their staff complete these.

Parking Income (2020/21)

- 1.17 Car parking income is an important revenue stream for the Council. In 2019/20 this amounted to approximately £4.4m for on and off-street parking, parking permits, and penalty charge notices.
- 1.18 The purpose of this audit was to provide assurance that controls are in place to meet the following objectives:
- There are secure and effective cash banking processes for all parking income;
 - Regular reconciliations are undertaken to ensure that all parking income is collected and banked, and any discrepancies are promptly investigated;

- There is effective monitoring of income trends to help identify thefts, machine breakdowns and other anomalies;
- External contractors involved with the collection of car parking income are performing in accordance with contract and service requirements;
- Payment machines are properly maintained.

1.19 As a result of our work, we were able to provide **Reasonable Assurance** over the controls in place. Most controls were operating as expected and we did not identify any high-risk issues. However, our testing did highlight that there were opportunities to strengthen the process further. A management action plan has been agreed with the Head of Parking and Waste which includes the following measures:

- Complete the reconciliation process documentation and introduce version control and review dates. The documentation will include roles and responsibilities; procedures and an escalation process. In addition, a standard operating procedure will be completed for each parking income stream that will include the reconciliation process.
- Develop an escalation and investigation process if a difference between the expected and actual income received is identified, as part of the reconciliation process. A discrepancy value for investigation will be agreed between the Head of Parking and Waste Services, and the Head of Finance and Performance.
- Review the key holder documents and implement new policies and procedures, including the filing of the electronic copy of key logs. There will be a regular management review of these procedures to ensure that they are being complied with. This review will include ensuring that regular spot checks are being undertaken by the supervisors.
- Revised policies and procedures for controlling keys will be developed and implemented, and regular management reviews will take place, including spot checks by supervisors.
- The documented process for income reconciliations will be completed, and version control and review dates will be introduced.
- Recovery of monies owed to the Council by the supplier of the parking equipment and machines. An amendment to the contract has been signed outlining the payment timeframe for the outstanding monies owed to the Council. The Parking Services team will work with the supplier to ensure that payments are brought up-to-date and agreed timeframes adhered to. The current process for receiving monies is being reviewed with the Legal & Democratic Services team in order to reduce the risk of non-payment and ensure that General Data Protection Regulations (GDPR) are being adhered to.
- Review the machine maintenance process, to ensure this includes the timely resolution of machine faults and the escalation of machine issues. A quarterly review of machine maintenance will be introduced to ensure service level agreement compliance. In addition, a training manual will be developed for staff on how to maintain all types of parking machines; this will be used for refresher training and training will be recorded.

Treasury Management (2020/21)

- 1.20 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’.
- 1.21 As at 31 March 2020, the Council’s external debt was £nil, and investments totalled £39m. During 2019/20 interest of £0.879m was earned on investments, at an average return of 2.1%. The majority of investments are fixed deposits with a variety of UK and foreign financial institutions.
- 1.22 The Council’s Treasury Management activities are regulated by a variety of professional codes, statutes and guidance.
- 1.23 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 the use of treasury advisers.
- 1.24 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;
 - 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.
- 1.25 We were able to provide **Reasonable Assurance** over the controls operating within the area under review because:
- The cash flow forecasting process is robust, utilising both known information and prudent estimates to determine the Council’s cash requirements. There is evidence of formal management oversight, scrutiny and review.
 - Investment decisions are efficiently managed, and advice on counterparties is secured from a professional advisor as required. It was evident from testing that the Finance team keeps appropriate records and all transactions were subject to review and approval, with appropriate separation of duties.
 - Regular periodic reconciliations of investments and general ledger balances are undertaken and verified.
 - There is evidence of regular meetings to discuss Treasury Management and of accurate reports being issued to the Audit Committee.

- The Horsham DC Constitution addresses the legal and statutory requirements for treasury management; the Treasury Management and Capital Investment Strategy for HDC is congruent with the Treasury Management Guidelines published by the Chartered Institute of Public Finance and Accounting. Whilst this Strategy was approved by the Audit Committee in December 2019, approval by Council wasn't obtained until October 2020.
- 1.26 Two medium priority areas for improvement were identified and appropriate remedial action has been agreed which is summarised below:
- Whilst there are good processes in place for the administration of treasury management, and some procedure notes are documented, it was agreed that more comprehensive written instructions will continue to be compiled covering all aspects of treasury management and cash flow forecasting.
 - An increase in the level of insurance cover will be considered at the next monthly Treasury Management meeting, weighing up the cost of any additional premium against the irregularity of investments over £5m being made.

Jigsaw Computer Application (2020/21)

- 1.27 The Jigsaw application is used to support the management of the Council's front-line Housing service. The system is a cloud based 'software as a service' solution. This audit reviewed all major input, processing and output controls including access controls, and also reviewed the controls in place to interface with the Council's main accounting system.
- 1.28 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;
 - Data processed through interfaces is authorised, accurate, complete, securely processed and written to the appropriate file;
 - 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 subject to sufficient testing and authorisation before implementation;
 - Appropriate support arrangements are in place to manage changes within the system.
- 1.29 We have been able to provide an opinion of **Reasonable Assurance** for the following reasons:
- The system contains sufficient input controls to support accurate data quality input.
 - All output from the system is subject to sufficient review to ensure any errors or issues can be identified and promptly rectified.
 - Controls over user accounts and access are fit for purpose with accounts locked after a number of unsuccessful attempts to access the system. In the majority of instances, access is controlled through the use of a single sign-on, with validation coming from a user's corporate network account.

- Whilst we found there is no formal process for potential users or their managers to request access to the system, given the relatively small number of users, this was not considered necessary as each new user request can be reviewed to ensure the request is bona-fide and the access requested is appropriate for the role.
- During the audit, our testing identified that users who have left the Council, or no longer require access, have not been removed from the module in a timely manner due to a concern that all the user's activity would be deleted. Following discussion as part of this audit, this was found to not be the case and all inactive accounts have subsequently been removed (and will continue to be on an ongoing basis).
- We identified three low risk findings, representing opportunities to improve controls through reviewing audit logs to identify any suspicious or unexpected activity which might identify attempts to hack into the system, or to identify any inappropriate activity by the Superuser. We also found that whilst the system provider is responsible for providing system updates and communication, engagement by the supplier with the Council about the nature and timing of these updates could be improved to manage the risks of changes being applied to the system which the Council is unaware of or not expecting. In such cases, this could result in a negative impact on service delivery.

Ulysses Computer Application (2020/21)

- 1.30 The Ulysses Care system is a cloud-based system and has been developed in-house as a replacement for the Community Link system. Ulysses is a comprehensive home care scheduling and electronic monitoring management suite, covering every aspect of organising care: managing referrals; creating care plans; allocating care workers to create their rosters; and issuing rosters electronically via the integrated Mobile application which also enables care workers to log their visit attendance and record information.
- 1.31 The use of Ulysses is designed to enable Horsham District Council's residents to maximise their independence, to have choices in their own lives, and to remain in their own homes for as long as possible. This helps to enhance people's independence so that they are healthier, stronger, more resilient and less reliant on formal health or social care services. The system went live in May 2020.
- 1.32 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;
 - Data processed through interfaces is authorised, accurate, complete, securely processed and written to the appropriate file;
 - 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 subject to sufficient testing and authorisation before implementation;
 - Appropriate support arrangements are in place to manage changes within the system.
- 1.33 We were able to provide **Reasonable Assurance** over the controls operating within the area under review because:

- System user access permissions are monitored and reviewed on a regular basis. There is a quarterly checking process in place to review all authorised access. A report/log function of users' names and permission rights can be viewed.
- Whenever a user logs in or attempts to log into the system a log file is created. Any instances of inappropriate access are identified and any attempts from an unauthorised IP address will be denied access.
- Reportable data is reviewed on a monthly basis. This procedure assures data is current and updated. Compliance with the formal Ulysses system contract provides assurance that all data is held securely and in adherence with GDPR requirements.
- Any planned system 'downtime' is communicated clearly to system users in order to prevent a negative impact on service delivery. However, if a change is urgent and needed straightaway in the 'Live' system, an update will take place.
- There will be an annual review of data for all customers. A check will be undertaken between Finance and Control Centre held data. Any discrepancies within the system will be reported to the Ulysses Support team immediately for review and correction by Ulysses or Horsham DC as appropriate.
- System changes and updates are carried out by the Ulysses provider as per the contract. Changes to the system are tested by internal staff and authorised before being introduced into production. Testing will be undertaken prior to an update or patch being applied. However, no updates have yet been implemented so we are unable to provide assurance over this process.
- We have identified two areas where good practice could be implemented. System users are not able to change their own passwords due to current permissions; the only opportunity is within the initial user set-up when first logging on. Passwords also have a low minimum character requirement. It was noted that audit logs produced by the Ulysses system are checked and reviewed by the Horsham DC project owner on a monthly basis. This includes logs for all system administrators, including the project owner's own activity.
- Actions were agreed in response to the one medium and one low risk finding identified during the audit.

Data in Transit / Home and Mobile Working (2020/21)

- 1.34 The demand and ability for organisations and its officers to work in a flexible and mobile way is becoming more desirable. Since the outbreak of the COVID-19 global pandemic and the UK being subject to lockdown measures, the need for officers to be able to work remotely has increased significantly for many organisations, including district councils, to be able to continue to provide services to their residents.
- 1.35 With the number of officers working remotely increasing, this is likely to increase the risk of breaches in relation to data-in-transit (the movement of data from one location to another either via the Internet or across a network), as well as potential data breaches due to an increase in officers taking physical records home with them.
- 1.36 This audit considered the effectiveness of control arrangements in place for the security of all council data when in transit; including data held on laptops and other mobile devices, as well as written notes and other documents. It also considered the effectiveness of arrangements to allow council officers to work remotely.

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

- Data classification has been established to enable council officers to have greater understanding of the levels of protection required for data-in-transit;
- Policies and procedures have been implemented to ensure council officers are aware of the requirements for managing any data-in-transit;
- Appropriate policy and procedures have been implemented to support council officers when mobile working;
- Mobile devices (for example, laptops and other portable devices) are secured accordingly to prevent the unauthorised access of council data;
- Connections between mobile devices and the Council's network are secure when officers are mobile working.

1.38 We were able to provide **Substantial Assurance** over the controls in place for the following reasons:

- The Council have robust policies in place with regards to information security, the protection of data, its classification and acceptable practices when any council data is in transit. These policies provide a clear framework for council officers concerning their responsibilities and what is expected of them.
- In addition to these policies, practical guidance and training is available to council officers on information governance and data protection. This training is compulsory for all officers, with a requirement to undertake a refresher course as part of a rolling programme. However, it has been noted that processes are not in place to monitor whether this requirement is being complied with across the Council. As a result, management would find it difficult to demonstrate to the Information Commissioner's Office that officers understand data protection requirements in the event of a data breach.
- Further policies, guidance and training are available which help to support officers when working from home or in a mobile way. As part of the response to Covid-19, additional technical guidance was issued by IT to provide further support to officers given that a significant number would now be subject to working from home arrangements, who may not be used to working in this environment.
- Corporate devices are subject to appropriate security arrangements in order to prevent unauthorised access to council data. These are controlled through a combination of robust access controls and encryption of disk drives on the device.
- The Council have recently implemented a Bring Your Own Device Policy, which will allow both officers and Members to access their Council emails on their personal device (e.g. mobile phone). The controls involved in this were found to be appropriate, with management approval required prior to access being granted and safeguards in place to allow the Council to prevent access remotely if the device were to be lost or the officer/Member were to leave.
- Remote access controls to the Council's network were found to be appropriate through a Virtual Private Network (VPN) with two-stage authentication in place.

1.39 One low risk finding was identified during the audit and actions were agreed to manage the risk identified.

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 The organisation uploaded the required data sets at the end of 2020 / beginning of 2021. Data matches were made available by the Cabinet Office on 28th January 2021, and these are in the process of being investigated.

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 3, 98% 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
31/12/20	50	1	49	98%

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>	<p>Corporate Resources</p>	<p>31/12/17</p>	<p>31/03/21</p>	<p><u>March 2021 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. A few officers have been provided with some adhoc training in the Parkside office.</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); and
- 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;
- Hop Oast (Cultural Compliance) follow-up;
- Capital Grant Funding / External Funding;
- T1 Access Control;
- Asset Management – Data Migration Assurance.

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	57% 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	G	<p>January 2018 - External assessment by the South West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings.</p> <p>June 2020 - Internal Self-Assessment completed. There were no major areas of non-compliance with PSIAS identified.</p> <p>June 2020 - Internal Quality Review completed, no major areas of non-compliance with our own processes identified.</p>
	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	98%
Our staff	Professionally qualified / accredited	80%	G	91% 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.