

**Report to Accounts, Audit & Governance  
Committee**

28<sup>th</sup> June 2016

By the Chief Internal Auditor



**Horsham  
District  
Council**

**INFORMATION REPORT**

Not Exempt

**Internal Audit – Quarterly Update Report**

**Executive Summary**

This report summarises the work completed by the Internal Audit Section since March 2016.

**Recommendations**

The Committee is recommended to:

- i) Note the summary of audit and project work undertaken since March 2016.

**Reasons for Recommendations**

- i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013.
- ii) The Accounts, Audit and Governance Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

**Background Papers**

Internal Audit Reports and Correspondence

**Wards affected:** All.

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## Background Information

### 1 Introduction and Background

- 1.1 The purpose of this report is to provide a quarterly summary of work undertaken by the Internal Audit Team since March 2016.
- 1.2 The Accounts and Audit (England) Regulations 2011 state that “a relevant body (*the Council*) must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.” This responsibility is discharged through the Council’s Internal Audit Section.

### 2 Relevant Policy / Professional Standards

- 2.1 Internal Audit follows the mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.
- 2.2 Internal Audit is conducted in accordance with the Council’s Constitution. Financial Regulation FR27 states that the Director of Corporate Resources shall maintain a continuous, comprehensive and up-to-date internal audit. The Chief Internal Auditor is required to report on a quarterly basis on the work of internal audit, and on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council’s governance arrangements, risk management systems and internal control environment.

### 3 Summary of Audit Findings

#### 3.1 Housing Benefits


OVERALL AUDIT OPINION: **SATISFACTORY ASSURANCE** (↔)<sup>1</sup>

The audit of Housing Benefits has been undertaken by the Internal Audit Team working on behalf of Mid Sussex District Council. Their overall conclusion was that “*whilst there is a basically sound system of internal control designed, there are weaknesses which put some of the system objectives at risk*”. The assurance level has remained the same as 2014/15 (previously audited by Mazars who are the Internal Auditors for Adur/Worthing).


The main concern identified from the 2015/16 audit was that from a sample of 30 new housing benefit claims, in 4 cases, the auditor could not find any evidence on the claimant file that proof of identity had been obtained. The CenSus Benefits Manager has reminded her team that proper identification should be submitted for all new claims.

#### 3.2 Cash and Bank

<sup>1</sup> <sup>1</sup> The symbols in brackets indicate the movement in the level of assurance when the area was last audited.

 = Improved.

(↔) = No change.

 = Reduced.

If blank ~ No previous opinion

**OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE (↔)**

The auditor is satisfied that a sound system of internal control is in place for the collection and receipting of cash within the Finance department. Daily reconciliations ensure that all transactions passing through the bank account are processed correctly. Monthly bank reconciliations are being signed by the preparer and reviewer. Delays can occur in correcting reconciling differences processed through CenSus Revenues and Benefits and protocols for dealing with these items will be revised.

### 3.3 Creditors

**OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE (↔)**

The auditor was satisfied that there is a sound system in place for the processing of creditor payments, including financial controls and maintenance of records. There continues to be an issue regarding the number of non-order invoices, and it has been agreed that this will be resolved when the new Finance system is implemented in April 2017.

Remedial action has been agreed to address the five low priority recommendations included within the report. This should further reduce the identified risks.

### 3.4 Treasury Management

**OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE (↔)**

The audit identified a generally sound system of control. However a few areas of weakness were identified. Monthly reconciliations between the Council's General Ledger and the Treasury Management records did not always show evidence of review by a senior finance manager. Evidence of agreement to the ledger and senior manager review will be retained and filed in future.

### 3.5 Payroll

**OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE (↑)**

Whilst there is an adequate system of control and all key controls are in place, there are a few weaknesses which may place the Council at risk. However, the control environment has improved significantly since the last audit review.

There are concerns about the level of data input error when batches are processed by West Sussex County Council, but this risk is mitigated by 100% checks being undertaken by Horsham District Council's Payroll Controller.

### 3.6 Planning Fees

**OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE** (↔)

A few control weaknesses were identified relating to the processing of planning applications. It was identified that there are currently no reconciliations carried out between the Uniform and TOTAL systems to ensure that all money processed and receipted on Uniform has been recorded in TOTAL. Steps also need to be taken to ensure that application processing is completed within 26 weeks to safeguard against the risk of having to refund planning fees. Appropriate remedial action has been agreed.

### 3.7 Purchase Cards

**OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE** (↑)

Whilst there is always an inherent risk in issuing purchase cards to staff, the auditor concluded that there are effective processes in place for controlling card use and reporting expenditure, reducing the threat of misuse.

### 3.8 Declarations of Interest

**OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE**

The auditor was satisfied that there are good systems and controls in place for Member Declarations of Interest.

At the time of the audit, there was no formal process for reminding officers of the requirement to complete declarations of interest, and no system for reviewing documents. It has been agreed that a six monthly reminder will be sent to staff via the "Council Matters" publication. In addition, all line managers will be required to complete "nil" returns, and the Officer Register of Interests will be periodically reviewed by senior officers to ensure consistency and appropriateness.

### 3.9 Debtors

**OVERALL AUDIT OPINION: LIMITED ASSURANCE** (↓)

The main control weakness relates to the lack of action being taken on unpaid debtor accounts. It was identified that the debt recovery process is not being complied with resulting in the Council's debt profile increasing each year. At the time of the audit, there were approximately 270 unpaid debtor accounts requiring further recovery action. This has been taken very seriously by senior officers, and a new officer has been appointed in Legal Services (on a one year contract) to review the outstanding recovery cases and to take appropriate action.

### 3.10 Capitol Theatre

**OVERALL AUDIT OPINION: LIMITED ASSURANCE** (↓)

A number of weaknesses were identified relating to processes and management controls. It was identified that fire drills are not being scheduled on a six monthly basis as required and evacuation procedures have not been signed and dated. Duty

Manager Log sheets are not always being completed and some risk assessments are out of date. There was also a concern about locking up procedures. Other concerns were raised including the electrical equipment register which is in need of updating. Remedial action has been agreed which will help to mitigate the risks identified.

### 3.11 Data Access Management

**OVERALL AUDIT OPINION: LIMITED ASSURANCE**

Whilst there are some examples of effective data management, there are weaknesses in several areas where the confidentiality, integrity and availability of the Council's data is at risk. In particular:

- One area of the network was being shared by officers from two different directorates. This folder was being used by a significant number of users who work in discrete and unrelated service areas. Some of the services handle personal and sensitive documents. The audit identified that there is a need to separate electronic folders which hold both confidential information (which is role related) and personal data.
- The auditor found that ICT technicians had permission to read or write to all data folders on the Council's network. Internal Audit considered this to be a risk and recommended that their permissions should be restricted. ICT management have accepted this recommendation and will seek to reset the permissions for the Domain Admin accounts.
- Internal Audit recommended updating the Acceptable Use Policy in order to protect the Council from the risk of copyrighted material being saved on the Council's network

## **4. Audit Plan ~ Progress Update**

4.1 87% of the original audit plan for 2015/16 has been achieved. More detail is contained in the Annual Audit Report.

## **5 Next Steps**

5.1 Not applicable.

## **6 Outcome of Consultations**

6.1 Not applicable.

## **7 Other Courses of Action Considered but Rejected**

7.1 Not applicable.

## **8 Financial Consequences**

8.1 There are no financial consequences.

## **9 Legal Consequences**

9.1 There are no Legal consequences.

## **10 Staffing Consequences**

10.1 There are no staffing consequences.

## **11 Risk Assessment**

11.1 All internal audit work is undertaken using a risk based approach and as part of this process, audit findings are risk assessed prior to being reported. The risk assessment then determines the order in which control weaknesses are reported and informs the overall audit opinion (see Appendix 2 for definitions).

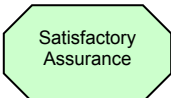


## Appendix 1

### Consequences of the Proposed Action

How will the proposal help to reduce Crime and Disorder?	This report has no effect on Crime & Disorder issues.
How will the proposal help to promote Human Rights?	The audit plan is undertaken in a way that encompasses the Council's overall corporate aims, objectives and values.
What is the impact of the proposal on Equality and Diversity?	Not relevant.
How will the proposal help to promote Sustainability?	This report has no effect on sustainability.

## Appendix 2

### SUMMARY OF INTERNAL AUDIT ASSURANCE OPINIONS

 <p>Substantial Assurance</p>	<p><u>System of Control:</u> There is a sound system of control in place which minimises risk to the Council; and/or</p> <p><u>Compliance with Controls:</u> Audit testing identified that expected controls are being consistently applied. Only a few errors or weaknesses were identified, but the implementation priority is considered to be of low importance.</p>
 <p>Satisfactory Assurance</p>	<p><u>System of Control:</u> Whilst there is an adequate system of control and all key controls are in place, there are some weaknesses which may place the Council at risk in a few areas; and/or</p> <p><u>Compliance with Controls:</u> Audit testing identified a lack of compliance with controls in a few areas.</p>
 <p>Limited Assurance</p>	<p><u>System of Control:</u> There are several weaknesses in the system of control and / or the absence of one or more key controls, which is placing the Council at risk in a number of areas; and/or</p> <p><u>Compliance with Controls:</u> Audit testing identified a lack of compliance with several controls and/or one or more key controls and/or potential risk of abuse.</p>
 <p>No Assurance</p>	<p><u>System of Control:</u> The system of control is generally weak leaving the system open to significant error or abuse; and/or</p> <p><u>Compliance with Controls:</u> Significant non-compliance with basic control processes leaves the processes / systems open to significant error or abuse.</p>