

**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 – Annual Report**

**Executive Summary**

This report has been compiled to:

- Provide a statement on conformance with the Public Sector Internal Audit Standards.
- Summarise the effectiveness of internal audit work.
- Summarise the work undertaken by Internal Audit during 2015/16 and provide an overall opinion on the adequacy of the Council's governance arrangements, risk management systems and control environment.

**Recommendations**

- To note the statement of compliance with the Public Sector Internal Audit Standards.
- To note the performance of internal audit against performance targets.
- To note the opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment, governance and risk management systems.

**Reasons for Recommendations**

- To comply with the requirements set out in the Public Sector Internal Auditing Standards 2013.
- 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 Quality Assurance Improvement Programme self assessment document.

**Consultation:** N/A

**Wards affected:** All

**Contact:** Paul Miller, Chief Internal Auditor, Ext 5319

# Background Information

## 1. Introduction

### 1.1 Purpose of Report

The main purposes of the report are to:

- Provide a statement on conformance with the Public Sector Internal Audit Standards and the results of the Quality Assurance Improvement Programme.
- Comment on the performance of the Internal Audit Section during the year.
- Summarise the work undertaken by the Council's Internal Audit Section and provide management and Members with an opinion on the adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.

It should be emphasised that internal audit work can provide reasonable, not absolute, assurance and it cannot guarantee that any system reviewed is free from material weakness. The opinion given on the overall system of internal control is based primarily on the audit work undertaken.

### 1.2 Quarterly Reports

The Accounts, Audit and Governance Committee receives quarterly reports on the work carried out by Internal Audit as part of the Council's governance arrangements.

### 1.3 Strategic Audit Plan

The Internal Audit Team works to a four year strategic audit plan, prepared by the Chief Internal Auditor, and aims to review the Council's major areas of operation and systems on a rolling cycle. The strategic plan was developed using a risk-based assessment which determines priorities and time allocations for each audit. Areas and systems which are considered to be fundamental to the Council's operations, or that are considered to be high risk, are normally reviewed on an annual basis.

### 1.4 Staffing

During 2015/16, the audit team operated with 3.6 members of staff (three full time employees and one part-time). All auditors have the requisite experience to effectively fulfil their responsibilities, and three members of staff are professionally qualified.

## **2. Statutory and Policy Background**

### **Statutory Background**

- 2.1 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.

### **Relevant Government Policy / Professional Standards**

- 2.2 Internal Audit follows the standards set out in the Public Sector Internal Audit Standards 2013.

### **Relevant Council Policy**

- 2.3 The Council’s Constitution supports the statutory requirements outlined above. 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 results 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. Compliance with the Public Sector Internal Audit Standards**

The Council’s Internal Audit Service is operated in accordance with the Public Sector Internal Audit Standards (PSIAS) which came into effect from 1st April 2013.

The standards require the Chief Internal Auditor to undertake a self-assessment of the internal audit service against a Quality Assurance and Improvement Plan (QAIP) checklist and to outline the results as part of the Annual Audit Report. There are a few areas of non-conformance which are detailed in Appendix 4. The only significant issue relates to the requirement for the internal audit function to be reviewed by an external organisation on at least a five yearly basis. A programme of reviews has been agreed between the heads of Internal Audit throughout Sussex which will be undertaken during 2016/17.

The Internal Audit Team has maintained its independence throughout 2015/16 in accordance with the Audit Charter.

## 4. Effectiveness of Internal Audit

### 4.1 Performance against the Annual Internal Audit Plan

The Internal Audit team uses a risk based approach when determining the annual audit plan and undertaking audit assignments. In order to respond to new risk areas identified during the year, the audit plan was sufficiently flexible to allow for additional audits to be undertaken.

During the year, 87% of audits were completed against a target of 85%. A summary is given below:

	<u>No. of Audits</u>
Original Audit Plan	31
(Less) audits not completed	<u>(4)</u>
	<u>27</u>

The following pieces of work were also undertaken:

- Backup and Recovery audit.
- DEFRA Grant Certification audit.
- Coordination of the Annual Governance Statement.
- Development of a corporate risk management toolkit.
- Risk management training to all service managers and risk champions.
- Review and update of the Council's Anti-Fraud and Corruption Policy.
- Review and update of the Council's Whistleblowing Policy.
- Development of a corporate Money Laundering Policy.
- Checks of old Council offices during the office move to ensure that no sensitive / confidential data was left behind.

Reviews of the following areas were not undertaken:

- Contracts
- Computer Asset Inventory
- Complaints Management
- Gap Analysis against ISO 27001

### 4.2 Implementation of agreed actions within the agreed timescale

The percentage of agreed action items implemented is one of the measures used to demonstrate the effectiveness of the section, although the actual implementation of agreed actions is a management responsibility. This area has continued to improve. From a review of 200 agreed actions for the previous financial year (2014/15), 198 have been implemented (99%). The percentage reported for 2013/14 was 94%. Details continue to be reported to the Accounts, Audit & Governance Committee who monitor progress on a quarterly basis.

### 4.3 Reporting

“Draft” audit reports and working papers are subject to a quality review undertaken by the Chief Internal Auditor before the final report is issued. There is a performance indicator which measures the percentage of audit reports issued within 15 days of the final audit meeting. The target for 2015/16 was set at 85%, and 92% has been achieved.

A new performance indicator was introduced in 2014/15 to measure the number of days between receiving the points arising from the auditor (for review) and issuing the points arising. The standard set is to issue points arising within 15 days. The target for 2015/16 was set at 85%. This is a challenging target as it does not take into account annual leave absences and busy periods. However, 82% was achieved. Since October 2015, the performance has been 100%.

### 4.4 Management Feedback

On completion of each audit assignment, the Chief Internal Auditor consults management formally to obtain their opinion on the approach and value of the audit work. 10 responses were received, expressing 100 constituent opinions, and these are summarised as follows:

<u>Opinion</u>	<u>201516</u>
Very Satisfied	60
Satisfied	40
Unsatisfied	0

The percentage of “very satisfied” and “satisfied” responses achieved was therefore 100% against a target of 95%.

## 5. Opinion on the Control Environment

5.1 This section of the report draws attention to any issues the Chief Internal Auditor considers are particularly relevant to the preparation of the Annual Governance Statement and includes an opinion on the overall adequacy and effectiveness of the Council’s governance arrangements, risk management systems and internal control environment and discloses any qualifications to that opinion, together with the reasons for the qualification.

5.2 The overall opinion is that “**Satisfactory**” assurance can be given that there is generally a sound system of internal control designed to meet the Council’s objectives, and that the controls are generally being applied consistently. The opinion is based upon audit work undertaken during the year. The number of outstanding agreed action items from audit follow ups has also been taken into account.

<b>Assurance Areas:</b>	
Governance	<p>The Council is committed to the principles of good corporate governance, which are already demonstrated through many aspects of good practice.</p> <p>A number of improvements have been made in respect of the Council's Governance Framework during 2015/16. In particular, the Council's Procurement Code and Financial Regulations have been reviewed and updated, and a new Officer Governance Group has been formed comprising the Director of Corporate Resources, Monitoring Officer and Chief Internal Auditor. This Group meets quarterly, and standing agenda items include the Council's Constitution; Annual Governance Statement; Risk Management; Information Security; Declarations of Interest; and Fraud.</p>
Risk Management	<p>The Council's corporate and departmental risk registers have been comprehensively updated following the 2014/15 consultant's review of the Council's risk management arrangements. A programme of training was completed as part of this exercise. The Internal Audit plan for 2016/17 has been developed primarily from the Council's risk registers.</p>
Internal Control	<p>There are no significant weaknesses to report which haven't been previously identified. A number of key control weaknesses were identified during the year, but remedial action has been taken on a timely basis in accordance with the Council's Risk Management Strategy.</p> <p>The table of internal audit assurance opinions, in Appendix 2, shows the individual audit opinions from the audit assignments undertaken in 2015/16. Where significant control weaknesses have been identified, remedial action is programmed (where possible) to be implemented within three months.</p>

### 5.3 Qualification to the Opinion

The audit opinion is based upon, and limited to, the work performed during the year. The opinion does not imply that Internal Audit has reviewed all risks and controls relating to the Council, but is based upon the range of individual opinions arising from risk based audit assignments completed during 2015/16. Opinions for individual audits are detailed in Appendix 2 of this report, and definitions of the opinions can be found in Appendix 3.

**6. Next Steps**

Not applicable.

**7. Outcome of Consultations**

Not applicable.

**8. Other Courses of Action Considered but Rejected**

Not applicable.

**9. Staffing Consequences**

There are no direct staffing consequences.

**10. Financial Consequences**

There are no financial consequences.

## Appendix 1

### Consequences of the Proposed Action

Consequences of the proposed action on:	
Risks	The Internal Audit function contributes to the effectiveness of the Council's risk management arrangements.
Risk Assessment attached Yes/No	No
Crime and Disorder	This report has no effect on Crime & Disorder issues.
Equality and Diversity/ Human Rights	The audit plan is undertaken in a way that encompasses the Council's overall corporate aims, objectives and values.
Equalities Impact Assessment attached Yes/No/Not relevant	Not relevant.
Sustainability	This report has no effect on sustainability.



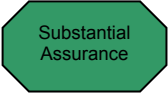
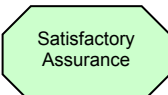

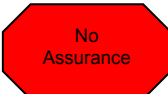
## Appendix 2

AUDITS	INTERNAL AUDIT ASSURANCE OPINIONS			
	SUBSTANTIAL	SATISFACTORY	LIMITED	NO ASSURANCE
Fuel Cards		✓		
Staff Loans			✓	
BACS			✓	
Security		✓		
Agency Staff			✓	
Vehicle Management & Maintenance		✓		
Elections		✓		
Back-up and Recovery		✓		
Trade Waste			✓	
Car Parks			✓	
Housing Allocations		✓		
Data Access Management			✓	
Building Control	✓			
VAT		✓		
DEFRA Grant (Flooding)		✓		
NNDR	✓			
Planning Fees		✓		
Debtors			✓	
Cash & Bank		✓		
Creditors		✓		
Council Tax		✓		
Housing Benefits		✓		
Purchase Cards	✓			
Capitol Theatre			✓	
Treasury Management		✓		
Declarations of Interest		✓		
Payroll		✓		

*Note: Internal audit at Horsham audited the NNDR system on behalf of Horsham, Mid Sussex and Adur District Councils (the CenSus Partnership). The opinions for Housing Benefits and Council Tax have been provided by the Internal Audit teams working on behalf of Mid-Sussex District Council and Adur/Worthing District Council respectively, and reliance has been placed on this work.*

## Appendix 3

### SUMMARY OF INTERNAL AUDIT ASSURANCE OPINIONS

 <p>Substantial Assurance</p>	<p><u>System of Control:</u></p> <p>There is a sound system of control in place which minimises risk to the Council; and/or</p> <p><u>Compliance with Controls:</u></p> <p>Audit testing identified that expected controls are being consistently applied. Only a few errors or weaknesses were identified, but the level of risk is considered to be minimal.</p>
 <p>Satisfactory Assurance</p>	<p><u>System of Control:</u></p> <p>Whilst there is an adequate system of control and all key controls<sup>1</sup> 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></p> <p>Audit testing identified a lack of compliance with controls in a few areas.</p>
 <p>Limited Assurance</p>	<p><u>System of Control:</u></p> <p>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></p> <p>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></p> <p>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></p> <p>Significant non-compliance with basic control processes leaves the processes / systems open to significant error or abuse.</p>

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<sup>1</sup> A **key control** is defined as a control or a group of controls that help to reduce an otherwise unacceptable risk to a tolerable level (i.e. to within the Council's risk appetite).

## Appendix 4

### PSIAS Quality Assurance & Improvement Plan ~ Results of Self Assessment

Standard	Requirement	Explanation / Actions
1110	<p><b>Organisational Independence</b></p> <p>The Chief Internal Auditor (CIA) should report “functionally” to the Board.</p>	<p>At Horsham, the CIA reports functionally to the Accounts, Audit and Governance Committee which is responsible for:</p> <ul style="list-style-type: none"> <li>• Reviewing and approving the Internal Audit Charter.</li> <li>• Reviewing and approving the Internal Audit Strategy.</li> <li>• Reviewing and approving the Annual Internal Audit Plan.</li> <li>• Receiving communications from the Chief Internal Auditor on the Internal Audit activity’s performance relative to its plan and other matters.</li> <li>• Making appropriate inquiries of management and the Chief Internal Auditor to determine whether there is any scope or budgetary limitation that impedes the ability of the internal audit activity to execute its responsibilities.</li> </ul> <p>As stated in the Internal Audit Charter, full Council is responsible for the following:-</p> <ul style="list-style-type: none"> <li>• Approving the internal audit budget.</li> <li>• Approving decisions regarding the appointment and removal of the Chief Internal Auditor.</li> <li>• Approving the remuneration of the Chief Internal Auditor.</li> </ul> <p>The Director of Corporate Resources is responsible for approving the resource plan.</p>
1312	<p><b>External Assessments</b></p> <p>External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.</p> <p>The scope of the assessment and qualifications / independence of the external assessor must be agreed with the Board.</p>	<p>A cost-effective, collaborative arrangement for external reviews has been agreed amongst local heads of audit within Sussex.</p> <p>During 2016/17, the Internal Audit Team at Horsham D.C will be formally audited by two Heads of Audit from East Sussex.</p>

1321	<p><b>Use of “Conforms to the International Standards for the Professional Practice of Internal Auditing”.</b></p> <p>The Chief Internal Auditor may only state that internal audit activity “conforms” if the results of the Quality Assurance and Improvement Programme (QAIP) support this statement.</p>	<p>Until an external assessment has been conducted, as required by the QAIP, a full conformance statement is not appropriate.</p>
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