

INTERNAL AUDIT ANNUAL REPORT & OPINION 2020/2021



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 The impact of Covid 19 has made 2020/21 a unique year for Internal Audit as was the case for the vast majority of the services we have audited. This has meant that we have had to adapt our working practices, reschedule some audits and make more amendments to the annual audit plan than would normally be the case.

2.3 Notwithstanding the above, we have still been able to deliver sufficient audit and assurance activity within the year to enable us to form an overall annual audit opinion for the Council in the normal way. This includes delivery of the revised programme of audits and investigating any allegations of fraud and other irregularities.

2.4 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. It should be noted that whilst there were a number of audits reports still in draft at the year-end, the outcomes from this work have been taken into account in forming our annual opinion. Full details of these audits will be reported to the Audit Committee once each of the reports have been finalised with management.

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 **reasonable¹ 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 2020 to 31 March 2021.

¹ 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.

3.2 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 higher than normal incidence of deficiencies where the operation of internal controls has not been fully effective, as reflected by the one minimal and seven partial opinion assurances issued in the year. The Chief Executive and Director of Corporate Resources consider that the extended lockdown period is a significant contributory factor, as opportunities for adhoc informal discussions with statutory officers about rules and regulations (that would normally take place) have been inhibited. It is also important to note that senior managers have, in some instances, directed internal audit resources to review areas where it was envisaged that there may be some issues.

3.3 Where improvements in controls are required as a result of our work, we have agreed appropriate remedial action with management.

3.4 There is clear evidence that the organisation is tackling governance and control issues at the most senior level. For example, a presentation has recently been given by the Director of Corporate Resources to all managers, highlighting a number of governance breaches that had come to light during 2020/21, and summarising the audit findings from our corporate compliance audits undertaken during the last few years. There is a robust corporate action plan in place which includes cascading expectations to all levels of the organisation via team meetings, staff briefings and appropriate training.

4. Basis of Opinion

4.1 The opinion and the level of assurance given takes into account:

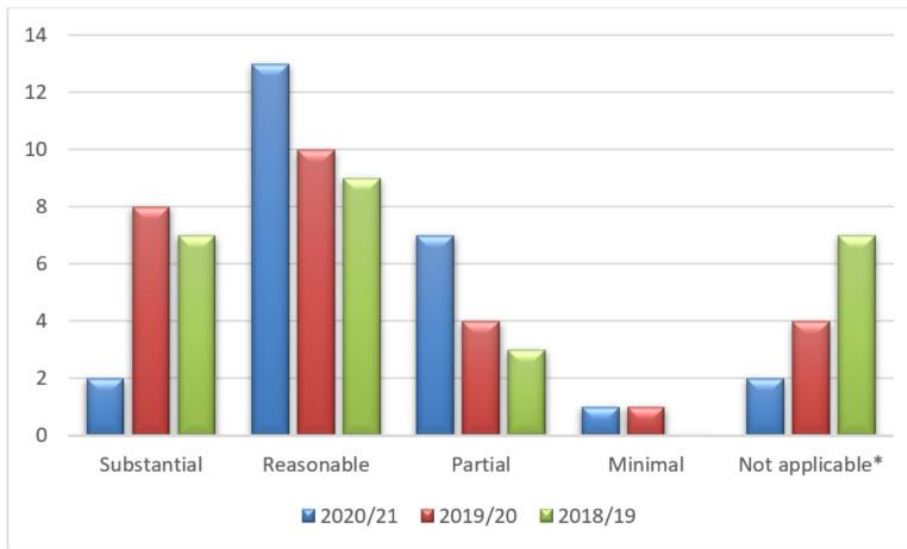
- All audit work completed during 2020/21, planned and unplanned;
- Follow up of actions from previous audits;
- Management responses to audit findings;
- The specific awareness briefings and training outlined in 3.4 above;
- Ongoing advice and liaison with management, including regular attendance by 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 2020/21, however, as explained above, Covid 19 and remote working have impacted on how our work was delivered, with a number of specific audits having to be rescheduled or in some cases, replaced with other activities.

5. Key Internal Audit Issues for 2020/21

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 2020/21:



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 eight audits received minimal or partial assurance opinions within the year, as follows:

- Travel Claims & Expenses
- Cultural Compliance (Capitol) Follow up
- Cultural Compliance (Building Control)
- Cultural Compliance (Parks & Countryside)
- BACS
- Purchase Cards
- Community Lottery
- Emergency Planning Follow up

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 continue to take prompt action to secure the necessary improvements in internal control.

5.6 At the time of writing this report, there were three audit reports that were still at draft report stage and had therefore not been formally issued. Two of these have since been issued, and have therefore been included in Appendix B (but have not been summarised in Annexe B). They will both be reported to the Audit Committee at the next meeting in September. The

other draft report has not yet been finalised, so will be included in the Annual Report and Opinion for 2021/22.

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 2020/21, all have resulted in either substantial or reasonable assurance being provided over the control environment.

Other Internal Audit Activity

5.8 During the year, 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 Horsham DC has in place a Counter Fraud Strategy that sets out its commitment to preventing, detecting and deterring fraud.

5.11 Internal Audit coordinated the recent submission of Council datasets for the biennial NFI exercise. The results from the data matching were provided to the Council on 31 January 2021 and Internal Audit will be liaising with the relevant departments to ensure that flagged matches are investigated and actioned appropriately.

5.12 Fraud risk assessments are regularly reviewed to ensure that the current fraud threat to the Council has been considered and appropriate mitigating actions identified. We have updated the risk assessment to include new and emerging threats as a result of Covid 19. This includes potential threats to payroll, staff frauds relating to home working and cyber frauds.

5.13 During 2020/21, the Internal Audit Counter Fraud Team continued to deliver both reactive and proactive fraud services across the Orbis Partnership.

5.14 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.

5.15 Two cases were investigated during the year by the Orbis Internal Audit Counter-Fraud team following receipt of intelligence from external sources. In addition, advice was

provided to a Head of Service following an irregularity which resulted in two employees being dismissed.

5.16 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

5.17 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 the Community Hubs (Covid-19 Red Response); and
- Purchase Cards, including areas of spend.

5.18 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:

- Capitol Bar and Catering Facility;
- Volunteers;
- Cultural Compliance (Hop Oast) follow-up;
- Capital Grant Funding / External Funding;
- T1 Access Control;
- Asset Management – Data Migration Assurance.

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 2020/21, 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 2020/21:

- 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 SWAP 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 As reported, a small number of outstanding reviews were nearing completion at year end and, due to the impact of the Covid 19 crisis, there were a small number of reports still in draft at the year end. Where this is the case, this is noted against the title of the audit in this report.

6.6 Significantly, we have completed 97% of the 2020/21 audit plan, exceeding our target of 90%.

6.7 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.

6.8 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 2020/21

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by the Audit Committee on 1st April 2020.
	Annual Audit Report and Opinion	By end July	G	2019/20 report approved by 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%	G	97.14%
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	<p>January 2018 – External assessment by the South West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible ratings.</p> <p>June 2021 - Internal Self-Assessment completed. There were no major areas of non-compliance with PSIAS identified.</p> <p>June 2021 - 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

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	G	98%
Our staff	Professionally Qualified/Accredited	80%	G	91%

Appendix B

Summary of Opinions for Internal Audit Reports issued during 2020/21

Substantial Assurance:

(Explanation of assurance levels provided at the bottom of this document)

Audit Title	Department
Main Accounting	Finance
Data In Transit	Technology Services

Reasonable Assurance:

Audit Title	Department
Budgetary Control	Finance & Performance
Parking Income	Parking & Waste
Cultural Compliance (Property & Facilities) Follow up	Property & Facilities
Ulysses Application Audit	Environmental Health & Licensing
Procurement	Corporate
Treasury Management	Finance & Performance
Accounts Receivable	Finance & Performance
Accounts Payable	Finance & Performance
Council Tax	LGSS
Business Rates	LGSS
Housing Benefits	LGSS
Payroll	Finance & Performance
Jigsaw Computer Application	Housing & Community Services

Partial Assurance:

Audit Title	Department
Cultural Compliance (Capitol) Follow up	Leisure & Culture
Cultural Compliance (Building Control)	Development & Building Control
BACS	Finance & Performance
Community Lottery	Housing & Community Services
Purchase Cards	Finance & Performance
Cultural Compliance (Parks & Countryside) (Draft)	Leisure & Culture
Emergency Planning (Draft)	Housing & Community Services

Minimal Assurance:

Audit Title	Department
Travel Claims & Expenses	Corporate

Other Audit Activity undertaken during 2020/21 (including direct support for projects and new system initiatives):

Audit Title	Department
Community Hubs	Housing & Community Services
Declaration of Interests – Corporate Support	Corporate

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.