

Internal Audit and Counter Fraud Quarter 2 Progress Report 2021/22

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1. Summary of Completed Audits

Cultural Compliance (Community Safety, Health & Wellbeing) (2021/22)

- 1.1 The Community Safety, Health and Wellbeing Team fulfil a number of distinct roles. The team offers a free service to adults in accessing local services and the provision of advice to improve their health and wellbeing. In addition, as part of the community safety function, partnership working is undertaken by this service to provide and promote community cohesion and resilience.
- 1.2 The purpose of this audit was to ensure that the service is delivered effectively and in compliance with all appropriate council policies and procedures and to provide assurance that controls are in place to meet the following objectives:
- To ensure management has put in place appropriate arrangements for monitoring delivery of the service and assessing its performance and effectiveness;
 - All key activities undertaken by the team are conducted in accordance with the Council's policies and procedures and comply with basic internal controls;
 - Robust management arrangements are in place and all members of staff are subject to appropriate management and supervision;
 - Expenditure is only incurred for legitimate Council business and is in line with the relevant procurement process.
- 1.3 Our work identified several areas where improvement was required and, as a result, we were only able to provide an opinion of **Partial Assurance**. It should be noted that at the conclusion of our testing there was a change in management, and this has resulted in a restructure within the service, culminating in different management reporting lines and responsibilities within the team.
- 1.4 In response to this audit, an action plan was agreed with management that included measures to:
- Review the activity-based risk assessments held by the team and update these post Covid-19, where there may have been changes in practice or working arrangements.
 - Complete an Information Asset Register/Data Flow Spreadsheet for the service area to help ensure compliance with data protection legislation.
 - Complete and submit declarations of interest for all officers in the team, including nil returns. These will be reviewed and approved by an appropriate manager.
 - Provide training to managers in the team regarding officer probationary periods and meetings.
 - Input and upload all relevant driver documentation to TechnologyOne (T1), for the team, and these will be reviewed and approved by the appropriate manager.
 - Provide training to purchase card holders, including the requirement to record what has been purchased making it easier for transactions to be verified.
 - Deliver ongoing training/awareness to help ensure that VAT treatment is correctly applied for all transactions.
- 1.5 A follow up audit will take place in 2022/23 to ensure that the agreed actions have been implemented.

Cyber Security (Organisational Response) (2021/22)

- 1.6 Cyber-attacks on the Council's IT systems and devices are a threat to the security of the Council's data and could have a large adverse impact on service delivery. Cyber security refers to the measures in place to combat these threats, and is defined as the protection of information systems; the data on them; and the services they provide, from unauthorised access, harm, or misuse.
- 1.7 The Council, along with many other organisations, are increasingly more reliant on their IT network infrastructure, so a cyber-attack which would prevent access to the network, could potentially have a significant detrimental impact on the Council being able to deliver its services to residents.
- 1.8 The audit considered whether suitable controls in relation to cyber security have remained in place, considering any new ways of working; arrangements for protecting Council information systems, data and services; and the approach to responding to identified incidents.
- 1.9 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- All cyber security incidents, including threats, and both successful and unsuccessful attacks are recorded;
 - Anomalous activity is detected in a timely manner and reviewed appropriately;
 - Staff have received communications to provide awareness of their role in supporting the Council to manage cyber security threats and continue operations;
 - Controls are in place to respond to identified cyber security incidents in an effective and timely manner from both an IT recovery and service area delivery perspective;
 - Controls are in place to allow services to operate whilst IT recovery is in progress;
 - Security measures are in place to minimise the likelihood and impact of cyber security incidents.
- 1.10 Based on the audit work undertaken, we were able to provide an opinion of **Reasonable Assurance**.
- 1.11 The specific findings of this audit have not been shared as the information could be used against the Council. We can however confirm that actions have been agreed in relation to one medium and one low risk finding identified during the audit.

Treasury Management (2021/22)

- 1.12 Treasury Management is defined 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".
- 1.13 As at the 31 March 2021, the Council's external debt was £nil, and investments totalled £59m. During 2020/21 interest of £0.858m was earned on investments. Most investments are fixed deposits with a variety of UK and foreign financial institutions.
- 1.14 The Council's Treasury Management activities are regulated by a variety of professional codes, statutes, and guidance.

- 1.15 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 and Investment Strategy;
 - All investment 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;
 - Borrowings are made only from approved organisations, are correctly authorised, and are repaid to 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;
 - Reporting mechanisms have been established, and training provided, to help ensure that decision-making is effective.
- 1.16 We were able to provide an opinion of **Substantial Assurance** over the controls in place, as the 2021/22 Treasury Management and Capital Investment Strategy is in place and has been agreed by the Audit Committee and Cabinet. There is a robust cash forecasting function in place and daily investments are effectively managed and the repayment of investments is timely and accurately recorded in the cash flow forecast. Periodic reconciliations are undertaken of investments and General Ledger balances to ensure these are accurate. There is documentary evidence of regular team meetings to review Treasury Management and briefing sessions for Members are taking place. In addition, management has addressed and fully implemented the agreed actions from the previous 2020/21 audit.

Community Lottery Follow up (2021/22)

- 1.17 The Council established the Community Lottery Scheme in August 2019, which is managed by an external lottery management company, Gatherwell Ltd. The Council uses the net proceeds of the community lottery to support verified local good causes that are registered with the scheme.
- 1.18 An audit of the Community Lottery was completed during 2020/21, in which an audit opinion of Partial Assurance was given. The audit had resulted in three medium priority actions agreed with management. We have undertaken a follow up audit to provide assurance that the agreed actions from the previous audit had been implemented.
- 1.19 Our work identified that all three of the previously agreed actions had been implemented in full. It should be noted that, where areas tested in the previous audit were well controlled, these were not re-tested during this review, as it is assumed that these controls are continuing to operate as expected. As a result of the improvements we identified, we were able to issue an opinion of **Substantial Assurance**.

2. Counter Fraud and Investigation Activities

Proactive Counter Fraud Work

- 2.1 The Orbis Internal Audit service 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 this was the

formation of a counter fraud team that would deliver both reactive and proactive fraud services across the partnership, including to Horsham District Council.

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 The Fraud Risk Assessment has been reviewed 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.

Investigation

- 2.5 A large volume of customer chargeback requests were received in Quarter 2 from card processing companies, all of which were linked to parking day permit transactions. The Counter Fraud Team investigated this matter and established that there was a high likelihood that these transactions (and further ones linked to the same accounts) demonstrated a pattern of potential fraudulent misuse of stolen card details. The Parking Service and Finance are currently actively working with our supplier as well as independent specialist IT consultants to resolve this matter.

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 2, 97% 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
30/09/2021	61	2	59	97%

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 actions:

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>31/03/2022</p>	<p><u>November 2021 Management Update:</u></p> <p>Plans for the roll out of training continues to be put on hold due to the impact of Covid, and in particular, 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> <p>Other day to day activities have been prioritised such as payments of business grants and remote year end closedown. More recently, budget setting training has been taking place which has also taken precedence.</p>

<p>Medium Priority</p> <p><u>Parking Income – Outstanding Payments due from Sagoss</u></p> <p>Parking Services will work with Sagoss to ensure that the payments are brought up to date and the agreed timeframes are adhered to. Will aim to move to the merchant provider, if possible, as it reduces the financial risk. This will be completed in conjunction with the Legal Team.</p>	<p>Community Services</p>	<p>28/02/21</p>	<p>31/12/2021</p>	<p><u>September 2021 Update:</u></p> <p>The backlog of payments has been significantly reduced and the acting Head of Service and Head of Finance & Performance met with the Managing Director of Sagoss on 18th November. Sagoss has provided the Council with some additional information, and it is hoped that a resolution will be achieved in the near future.</p>
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- 3.5 Action tracking is a process undertaken by internal audit to obtain confirmation (usually in written form) that agreed actions have been implemented by the due date. At the present time, we follow up all high and medium priority actions with heads of service, a significant proportion of which are associated with partial and minimal assurance opinions which are already subject to a formal follow up by Internal Audit. In these circumstances, if agreed actions haven't been implemented, these are identified and routinely reported to the Audit Committee.
- 3.6 Following a service review meeting with the Director of Corporate Resources, it is proposed that the above process is amended so that only high priority actions are tracked in future. This would free up valuable management resource with relatively low impact on the control environment. The requirement to ensure that all agreed actions have been implemented will continue to be a management responsibility.

4. Amendments to the Audit Plan

- 4.1 In accordance with proper professional practice, the Internal Audit plan for the year is kept under regular review to ensure that the service continues to focus its resources on 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:

Additional Audit Work	Rationale for Addition
<p>Hop Oast Depot Management Controls – Provision of advice and support</p>	<p>Following on from the Corporate Compliance audit which was completed in January 2020, it has been agreed with the Director of Community Services that proactive support and advice will be provided to the new Head of Service to help improve the control</p>

Additional Audit Work	Rationale for Addition
	environment prior to a formal follow-up audit taking place.
Corporate Compliance (Environmental Health & Licensing)	Due to the additional pressure placed upon the Strategic Planning Department, resulting from an unexpected change in central government policy in relation to the Local Plan, it has been agreed that the Corporate Compliance audit of Strategic Planning will be postponed until 2021/22. Instead, a corporate compliance audit of Environmental Health is being undertaken.
Officer Declarations of Interest – Provision of advice & support.	Proactive support is being provided to enhance and improve the current process.
Grant Certification Work	Compliance & Enforcement Grant.

4.2 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:

- Corporate Compliance (Hop Oast) follow-up audit.
- Corporate Compliance (Strategic Planning) audit.

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 14 th April 2021.
	Annual Audit Report and Opinion	By end July	G	2020/21 report presented to the Audit Committee on 20 th July 2021.
	Customer Satisfaction levels	90% satisfied	G	100%
Productivity and process efficiency	Audit Plan – completion to draft report stage	90%	A	34.5% completed to draft report stage at the end of Quarter 2, against a target of 45%. There are 10 audit

Aspect of Service	Orbis IA KPI	Target	RAG score	Actual Performance
				assignments currently in progress, and it is expected that performance against this target will be closer for Quarter 3.
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 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.
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high & Medium priority agreed actions	G	97%
Our staff	Professionally qualified / accredited	80%	G	91% ¹
Satisfaction Levels	Quality of the service rated as Good or above.	90%	G	100%

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.