

Internal Audit and Counter Fraud Quarter 3 Progress Report 2022/23

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1. Summary of Completed Audits

Contract Management

- 1.1 Contract management is the process of systematically and efficiently managing relationships, service delivery, and contract administration to maximise operational and financial performance, and minimise risks to the Council.
- 1.2 In 2020/21, Horsham District Council had a total expenditure of approximately £12m across 1,546 suppliers. Approximately £10m of this spend was with suppliers where cumulative expenditure totalled more than £20k meaning that a formal procurement process was required.
- 1.3 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- A corporate framework is in place which supports effective contract monitoring and reporting in accordance with legislative and stakeholder expectations;
 - Guidance and training support effective contract management;
 - The Council ensures that financial controls are in place to ensure that delivery is in accordance with the agreed budget and contract amount;
 - Corporate risk management arrangements are in place that support effective contract delivery;
 - Procedures ensure that contractors are financially viable, properly insured and have effective business continuity planning;
 - Variations deliver value for money and comply with regulatory requirements.
- 1.4 Overall, we were able to provide an opinion of **Reasonable Assurance** over the control environment.
- 1.5 There is an easily accessible contract management framework in place which is supported by guidance, templates, and checklists available to contract managers via the District Council's Intranet page. This provides contract managers with the tools to perform their responsibilities effectively.
- 1.6 Key officers have attended training, workshops and presentations; there is a corporate contracts register which captures information relating to current and expired contracts; and performance is monitored by contract managers.
- 1.7 We also identified a few areas for improvement:
- 1.8 The Procurement Team will ensure that contract handover is included in the corporate governance training module and will also incorporate this into future awareness training sessions around contract management.
- 1.9 Guidance on the completion of annual financial appraisals will be incorporated into future awareness training, and will also be communicated as part of the quarterly budget monitoring process.

- 1.10 The Procurement Team is undertaking a risk analysis of the Council's key contracts and will aim to ensure that these have appropriate business continuity plans in place, by liaising with the departments and the Emergency Planning Officer.

IT Strategic and Operational Risk Management Arrangements

- 1.11 IT risk management is the process of continually identifying, assessing, and reducing IT-related risk within appropriate levels of tolerance set by the organisation's wider risk management framework.
- 1.12 With organisations placing an even greater reliance on IT and the support provided by their IT department, it is important that IT-related risks are addressed accordingly ensuring that ownership is appropriate.
- 1.13 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- The impact of IT-related risk is identified and included as part of risk management processes across the Council;
 - IT-related risks are mitigated to acceptable levels across the Council;
 - IT-related risks are assigned to appropriate officers who are able to ensure that the correct mitigations are employed.
- 1.14 Overall, we were able to provide an overall opinion of **Reasonable Assurance** over the control environment.
- 1.15 The IT department has their own departmental risk register including both those IT-related risks included on the corporate risk register, and those that are more of an operational level within the department. Robust processes were found to be in place to identify IT-related risks, ensuring that appropriate action is taken to mitigate risks and appropriately assigning responsibility within the IT team.
- 1.16 Significant IT-related risks that could impact the Council were found to be included as part of the Council's corporate risk register. Inclusion at this level helps to ensure that these risks receive appropriate exposure from both Senior Management and Members, and should help to encourage a sense of shared responsibility across the Council in addressing the risks.
- 1.17 One medium priority finding was reported, which concerned the procurement of new third-party software systems. Where associated risks are accepted by the Council, there is potential that these are not known by key officers who may wish to implement mitigations at a future date, for example, if the control environment changes. It was agreed that service managers will add any such instances to the departmental risk register for monitoring purposes.

Emergency Planning Follow up

- 1.18 A previous follow-up audit of Emergency Planning was completed in June 2021 which resulted in an audit opinion of Partial Assurance. In line with our follow up protocol, and as part of our planned work for 2022/23, we agreed to undertake a further follow-up review of this audit.

- 1.19 In the previous review we raised one high priority action, three medium actions and six low actions.
- 1.20 The purpose of this review was to assess progress made in implementing the agreed actions from the 2021/22 audit. Testing did not cover controls which were found to be satisfactory during the previous review.
- 1.21 The objectives from the previous review were:
- To ensure that the Council complies with the Civil Contingencies Act 2004; and
 - To ensure that, for civil emergencies, proper processes are in place; resources have been identified; roles and responsibilities have been clearly defined; and appropriate training has been provided.
- 1.22 We were able to provide an updated opinion of **Reasonable Assurance** on the basis that:
- 1.23 The direction of travel for the service is positive. The 2020/21 review highlighted several findings, some of which were repeated from the previous review in 2019/20. During the current review, we were able to establish that these outstanding actions had been implemented.
- 1.24 Whilst the actions from the previous review have been implemented, we were not able to give the higher rating of substantial assurance as, although the direction of travel shows improvement, this was a snapshot in time, and therefore we have not been able to evidence a *sustained* level of improvement. It is important that key documents are routinely updated when there are changes, and that appropriate emergency planning and rest centre training is provided on a regular basis to help ensure that officers are fully aware of their roles and responsibilities.

Capitol Cultural Compliance Follow up

- 1.25 The Capitol is an arts and cultural venue in Horsham town centre, owned and operated by the Council. The venue consists of a theatre, two cinema screens, studio theatre, meeting room and gallery space, as well as a café and bar.
- 1.26 An audit of cultural compliance at the Capitol was completed for 2018/19 and we provided an audit opinion of Partial Assurance. A follow-up audit was subsequently completed in 2020/21 and a further Partial Assurance opinion was given. As part of our planned work for 2022/23 we agreed with management to undertake a further follow up review.
- 1.27 The primary purpose of this audit was to review the agreed actions from the 2020/21 audit.
- 1.28 The control objectives from the original review were:
- To ensure management has put in place appropriate arrangements for monitoring delivery of the service and assessing its performance and effectiveness;
 - To ensure that there is an adequate budget setting and monitoring process in place and that appropriate measures are taken in a timely manner to address budget pressures;
 - To ensure that expenditure is only incurred for legitimate Council business and is in line with the relevant procurement process;
 - To ensure that where chargeable services are delivered, appropriate prices are set and regularly reviewed and that all income attributable to the work undertaken by the service

is invoiced correctly;

- To ensure there is effective staff supervision and performance management including administration of staff development and well-being in accordance with the Council's procedures;
- To ensure that assets purchased for the Council are held securely and are appropriately managed.

1.29 Overall, we found that the department complied with the majority of corporate policies and procedures that we reviewed. Therefore, we have been able to provide an updated opinion of **Reasonable Assurance** over the controls operating as:

- Of the seven findings that were raised in the previous audit, six have been implemented, and one has been partly implemented. In particular, controls in respect of casual workers; adherence to the working time directive; and the completion of declarations of interests have improved.
- It was agreed that the use of a purchase card at the Capitol will be reviewed with the Finance department. Whilst the use of one card is preferred by the Finance department, it is important that this remains under the control of a named individual and should not be accessible to other officers.

Payroll

1.30 Payroll represents one of the largest areas of expenditure for the Council for the payment of employees who provide front line and support services.

1.31 The total gross annual salary cost for the Council for 2021/22 was just over £17m.

1.32 The number of staff employed by the Council on 31 March 2022, was 440, which equates to 398.2 full time equivalents (FTEs). In addition, 50 casual workers were paid in June 2022.

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

- Only genuine starters are set up, approved, and pay accurately calculated from the correct date;
- Leavers are removed from the Payroll in a timely manner and paid correctly and accurately to the correct dates;
- Permanent variations to pay accurately reflect employees' grades and/or changes to their contracts, calculated and paid from the correct dates;
- Payruns and BACS transmissions are correct and authorised;
- Payroll data is accurately reflected in the General Ledger;
- Temporary payments (including additional hours, expense claims and payment to casual staff) are only made for hours worked and expenses incurred legitimately as a result of employment;

- Changes to standing data are reviewed, authorised and input accurately.
- 1.34 As a result of our work, we were able to provide an opinion of **Substantial Assurance** in this area. We found that the payroll process, including starters, leavers, and permanent variations to pay, are robust as there is appropriate approval, authorisation and recording in place. Changes to staff details are subject to scrutiny and verification. We also found that data is regularly reconciled to the General Ledger.
- 1.35 A few areas were identified to help further improve the controls, and appropriate actions have been agreed with management to address these.

Private Sector Leasing Scheme

- 1.36 The Private Sector Leasing (PSL) Scheme is a new Horsham DC initiative designed to meet increasing Temporary Accommodation (TA) needs; reduce reliance on costly bed and breakfast solutions (of which there is limited supply); provide a better quality of housing for those seeking TA; and to lower costs over the longer term.
- 1.37 The PSL scheme enables the Council to take on a lease for a privately owned property, which is then used to house homeless households, pending more permanent accommodation solutions being obtained through either secure affordable housing, entering the private sector, or a change in circumstances.
- 1.38 At the time of the audit, the scheme was at inception stage, with no leases yet secured. The audit engagement therefore looked to review the planned scheme, according to the initial guidance and process notes produced, and provide advice and support where necessary. Given the nature of this audit activity, it was agreed at the outset that providing an audit opinion at this pre-implementation stage of the scheme would not be appropriate. A full audit review is instead planned for 2023/24.
- 1.39 The purpose of the review was to provide assurance that controls are in place to meet the following objectives:
- Requirements on property owners and within contractual lease terms (including maintenance, break-clauses, and end of lease) are sufficiently robust, to limit the risk of additional expense;
 - Administrative oversight required both at the outset of property acquisition, tenants in/out, and during placements (including tenant support, landlord support, and dispute resolution) is adequately resourced;
 - The Council's PSL offer is framed to attract the standard and volume of properties to meet TA requirements under the scheme.
- 1.40 A high-level review of the lease and guidance has established that defined break clauses are set out for both parties in the event that either party wishes to end the contract.
- 1.41 The Council has an obligation to attend to the maintenance of the interior elements of the property. 'Interior' is defined as internal doors, windows, ceilings, floors, main structure and internal walls. There will be little administrative overhead required as these repairs would be managed externally by the Council's outsourced maintenance provider for repairs and maintenance.

- 1.42 Some minor improvements to the operation of the scheme and guidance in place have been identified. These include additional opportunities for promotion of the scheme, and minor amendments to the draft lease agreement.

2. Counter Fraud and Investigation Activities

National Fraud Initiative (NFI)

- 2.1 Internal Audit has been working with services to ensure that the relevant data extracts are uploaded for the 2022 National Fraud Initiative (NFI) data matching exercise. The majority of matches from the exercise have now been received which will be reviewed in the coming months. The team continues to monitor intel alerts and share information with relevant services when appropriate.

Fraud Risk Assessments

- 2.2 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

- 2.3 The Orbis Counter Fraud team has developed a Counter-Fraud Strategy and Framework for Horsham. This has recently been reviewed and updated and the revised version was approved by both the Senior Leadership Team and the Audit Committee in September 2022. The revised version has been updated on the Council's Intranet.

3. Action Tracking

- 3.1 All high priority actions agreed with senior management as part of individual audit reviews are subject to action tracking. As at the end of quarter 3, 100% of high priority actions due had been implemented within agreed timescales.
- 3.2 Internal Audit will continue to work with senior management to ensure that sufficient attention is given to any high or medium priority actions that are overdue and an update on progress with high priority actions will continue to be reported to this committee.

4. Amendments to the Audit Plan

- 4.1 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:

Planned Audit Work	Rationale for Addition
Protect & Vaccinate Grant Certification	Central Government directive
COMF (Contain Outbreak Management Fund) Grant Certification	Central Government directive
Bespoke Risk Management Training	Client request
Declaration of Interest Reports compiled and sent to each Head of Service covering their individual areas of responsibility.	Client request
Provision of audit advice following changes in officer roles for administering the Payroll function.	Client request - Potential risk to the control environment

4.2 In order to allow this additional work 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:

- Private Sector Leasing Scheme (advisory work in respect of the process has been undertaken with a view to undertaking a full audit once the Scheme is operational).

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 of agreed key performance indicators as set out in the following table:

6. 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 30 th March 2022.
	Annual Audit Report and Opinion	By end July	G	2021/22 report presented to the Audit Committee on 29 th June 2022.
	Customer Satisfaction levels	90% satisfied	G	100%
Productivity and process efficiency	Audit Plan – completion to draft report stage	90%	G	78.4% 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	Dec 2022 - External Quality Assurance completed by the Institute of Internal Auditors (IIA). Orbis Internal Audit was assessed as achieving the highest level of

				<p>conformance available against professional standards with no areas of non-compliance identified, and therefore no formal recommendations for improvement arising.</p> <p>In summary the service was assessed as:</p> <ul style="list-style-type: none"> • Excellent in: <ul style="list-style-type: none"> - Reflection of the Standards - Focus on performance, risk, and adding value • <u>Good</u> in: <ul style="list-style-type: none"> - Operating with efficiency - Quality Assurance and Improvement Programme • <u>Satisfactory</u> in: <ul style="list-style-type: none"> - Coordinating and maximising assurance
	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	100%
Our staff	Professionally qualified / accredited	80%	G	90% ¹

¹ Includes part-qualified staff

Appendix B

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.