

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

4th January 2017

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 September 2016.

Recommendations

The Committee is recommended to:

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

Contact: Paul Miller, Chief Internal Auditor, 01403-215319

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 September 2016.
- 1.2 The Accounts and Audit (England) Regulations 2015 state that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.” 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 Procedure Rule 4e 32 states that: “the Chief Finance Officer, as determined by the Council, will ensure that the Council has appropriate arrangements in place to maintain an adequate and effective internal audit”. The terms of reference for Internal Audit are detailed in the Council’s Internal Audit Charter which is approved and reviewed by the Audit Committee.

3 Summary of Audit Findings

3.1 Emergency Planning

OVERALL AUDIT OPINION: **SATISFACTORY ASSURANCE** 

Controls and processes relating to Emergency Planning were reviewed and are generally working effectively. Audit testing identified a few areas where improvements should be made. In particular the Emergency Plan (and severe weather plans) need to be reviewed and updated where necessary. It was also identified that there are currently no formal training records held.

3.2 Software License Management

¹ ¹ 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

Controls are in place for the management of software licenses and from sample audit testing, the auditor did not identify any unlicensed software.

However, it is important that the Systems Development Manager is consulted prior to entering into procurement arrangements for the acquisition or maintenance of application systems. It is also important that an accurate and up-to-date inventory of software applications is maintained to support future decision-making, particularly as the authority moves towards cloud-based solutions. Actions have been agreed to tighten controls in these areas and to help ensure that value for money is achieved.

3.3 Release and Change Management

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE

The CenSus ICT has introduced a formal change management process which is based on ITIL* best practice. The process is currently focused on the IT infrastructure. However, at the time of the audit, there was no formal 'release management' or 'change management' process in place for application systems. Changes will be implemented with the introduction of the Cherwell application system (a new IT service management solution).

3.4 Events Management

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE

There is a sound system of control in place for the administration of events management. A dedicated events team is in place which manages and facilitates a comprehensive annual events programme. The main finding related to the need to improve the organisation of the department's equipment store room and associated inventories. Remedial action has been agreed.

3.5 Complaints Management **SATISFACTORY ASSURANCE**

There is a sound system of control in place for the administration of complaints. A dedicated complaints management tool (Covalent) was introduced in February 2015 which provides a central repository for the whole Council to record complaints and compliments in a standardised format.

The main finding related to complaint representatives not fully understanding or complying with the requirements of the Council's policy and procedures. It has been agreed that complaint representatives will be reminded of the policy requirements and the need to adhere to the required standards. It has also been agreed that quality control checks will be undertaken to ensure compliance.

3.6 Contracts **LIMITED ASSURANCE** (↔)

* ITIL (IT Infrastructure Library) is a set of practices which have been designed for effective IT service management.

The auditor identified a number of shortcomings in terms of compliance with the Council's Procurement Code. In particular, greater focus should be given to ensuring that suppliers are treated fairly and that value for money is being achieved.

As a result of the audit, the profile of this area has been raised. In particular, there will be greater involvement of the Senior Leadership Team in ensuring compliance, and more informative reporting to highlight potential areas of concern.

3.7 Payment Card Industry Data Security Standard **LIMITED ASSURANCE**

Compliance with the Payment Card Industry Data Security Standard (PCI DSS) is a mandatory requirement for all organisations that store, process or transmit payment card data. The audit found that the Council is not fully compliant with PCI DSS, however, the risk is substantially mitigated as our payment card data is stored off-site with third party suppliers.

It has been agreed that further training will be provided to staff who take payments from the public. In addition, the Head of Finance has added PCI DSS to his departmental risk register and will monitor risk exposure on a regular basis.

4. Other Audit Work

4.1 The Internal Audit team has been involved in a number of other areas:

- Significant contribution to the Internal Audit shared service work stream (involving Arun, Chichester and Horsham District Councils).
- Following the transfer of the Benefits Fraud Investigation Officers to the Department of Work and Pensions department, Internal audit now coordinates the NFI (National Fraud Initiative) data matching exercise on behalf of the Cabinet Office (formally administered by the Audit Commission). Fair Processing Notices are now in place for all data sets submitted to the Cabinet Office, and all requested data has now been securely uploaded.
- A new Code of Corporate Governance has been drafted following the recent publication of new CIPFA guidance. This document will help to inform the Annual Governance Statement for 2016/17.

5. Audit Plan ~ Progress Update

5.1 The audit plan is progressing well (see Appendix 2 for current status). However, as stated in my September report, the 'Shared Services' project has had a significant impact on resources this year. As a consequence, some elements of the audit plan may not be achieved.

A decision has already been taken to postpone the audit of IT Governance on the basis that the IT Strategy and IT Service are currently being comprehensively reviewed.

The new Finance system will not be available for testing until after 31st March 2017, and therefore this piece of work will be carried forward to the 2017/18 financial year.

From 2017/18, it is likely that the audit plan will be significantly cut. Limited resources will inevitably result in audit coverage being reduced, and it is therefore important that managers provide adequate focus in the areas of risk management and controls within their areas of responsibility. The control environment has incrementally improved during the last five years and this will need to be sustained. The audit plan in future years will continue to focus on key risk areas, and reliance will be placed on the Council's risk registers.

6 Next Steps

- 6.1 The Committee will be kept informed about progress in terms of the audit plan and the outcomes of the Shared Services project.

7 Outcome of Consultations

- 7.1 Service managers are consulted during each audit. At the end of each review, audit findings and recommendations are discussed with the service manager at a final meeting, and actions are agreed. An action plan is incorporated into the final report including details of responsible officers and agreed implementation dates. There are occasions when a director may also be consulted, particularly for audits which span a number of departments.

8 Other Courses of Action Considered but Rejected

- 8.1 Not applicable.

9 Resource Consequences

- 9.1 This report summarises information about the work undertaken by Internal Audit, and therefore there are no direct financial or HR consequences.

10 Legal Consequences

- 10.1 There are no legal consequences. Where compliance issues are identified during audit fieldwork, the Head of Legal & Democratic Services (or relevant legal specialist) will be consulted.

11 Risk Assessment

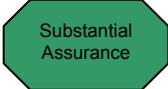
- 11.1 All internal audit work is undertaken using a risk based approach and as part of this process, audit findings are risk assessed prior to being reported. The risk assessment then determines the order in which control weaknesses are reported and informs the overall audit assurance opinion. See Appendix 1 for audit report assurance definitions.

12 Other Considerations

12.1 Internal Audit is a reporting function and there are no consequences in respect of Crime & Disorder; Human Rights; Equality & Diversity; or Sustainability. However these areas are considered where appropriate during audit fieldwork.

Appendix 1

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>