

Report to Audit Committee

22nd March 2017

By the Chief Internal Auditor

INFORMATION REPORT

Not Exempt



**Horsham
District
Council**

Internal Audit – Quarterly Update Report

Executive Summary

This report summarises the work completed by the Internal Audit Section since December 2016.

Recommendations

The Committee is recommended to:

- i) Note the summary of audit and project work undertaken since December 2016.
- ii) Approve the revised Audit Charter.
- iii) Approve the Internal Audit Strategy.
- iv) Approve the Internal Audit Plan for 2017/18.

Reasons for Recommendations

- i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013.
- ii) The Audit 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.

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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 December 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 Council Tax

OVERALL AUDIT OPINION: **SUBSTANTIAL ASSURANCE** (↑)

There is a sound system of control in place for the collection of council tax. There were no significant issues reported.

3.2 Hop Oast Depot ~ Disposal of Bulky Bags

OVERALL AUDIT OPINION: **SUBSTANTIAL ASSURANCE**

The Bulky Bag service is a new service for customers. The service has sound processes and controls and is very well administered. Audit testing identified that all expected controls for the operation of the Bulky Bag service and the collection of fee income are being consistently applied.

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

3.3 Debtors

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE (↑)

The control and administration of debtors and outstanding debts has improved since the last audit. A dedicated Debt Recovery Assistant is now in place in the Legal Department who is responsible for monitoring and chasing up all long-term outstanding debts. Regular meetings are being held between officers from the Finance and Legal departments to discuss the outstanding debt situation and to review the progress that is being made regarding debt recovery. Reports are also produced for, and discussed by, the Senior Leadership Team.

The introduction of a new Finance system later this year will make it easier for officers at all levels to interrogate, monitor and chase outstanding debts.

3.4 Creditors

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE (↔)

All key controls are in place within the Creditors System and are being complied with. A few recommendations were made primarily designed to support Finance officers in developing controls for the new Financial Information system (FIS) which is due to be implemented later this year.

The high number of invoices that are processed without an order within the system remains an issue, but will be more rigorously addressed with the implementation of the new FIS.

3.5 Budgetary Control **SATISFACTORY ASSURANCE (↔)**

The majority of budget managers who were interviewed said they fully understand what is included within their delegated budgets. All budget managers interviewed said they receive good support from their Finance colleagues.

The audit confirmed that the majority of budget holders complete their monthly budget monitoring and outturn projections within the required timescale. The HR and OD Department is currently in the process of implementing a new "Behaviour Framework" which incorporates a budgetary control component.

4. Other Audit Work

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

- Orbis

Following the Cabinet decision on 26th January, it is envisaged that the Internal Audit service will be provided by Orbis from 1st April 2018. Meetings have been held with Orbis and an integration plan is currently being developed. There will be a period of transition during 2017/18 to establish governance arrangements

and to allow adequate time for processes and ways of working to be aligned. Data sharing agreements have been signed with Surrey County Council, East Sussex County Council and Brighton and Hove City Council to enable resources to be exchanged between sites from 1st April 2017.

- Benefit Subsidy Work

Internal Audit has independently reviewed the Housing Benefit Subsidy claim on behalf of the Director of Corporate Resources for the purpose of providing additional information.

- National Fraud Initiative

Horsham D.C. participates in the National Fraud Data Matching exercise as directed by the Cabinet Office. Internal Audit has examined the non-benefit data matches and appropriate action has been taken. A separate duplicates test for creditor payments will be undertaken during April using our IDEA (Interactive Data Extraction & Analysis) software.

5. Audit Plan ~ Progress Update

- 5.1 The audit plan for 2016/17 is continuing to progress well, and we are on target to meet our performance target of 85%. Please see **Appendix 2** for summary of progress.

The following audits will not be carried out during the current year:

- IT and Data Governance
- New Finance System
- ICT Asset Inventory
- Communications / Marketing
- Ethics, Culture and Behaviours

The majority of these areas have been carried forward to the 2017/18 audit plan.

6. Audit Charter

- 6.1 The Public Sector Audit Standards 2013 requires that the Internal Audit Charter is reviewed annually, and that any changes are approved by the Board (i.e. the Audit Committee). The Audit Charter has been reviewed and updated to ensure full compliance with professional standards. **See Appendix 3.**

7. Internal Audit Strategy

- 7.1 The Public Sector Internal Audit Standards 2013 requires the Head of Internal Audit to produce an Internal Audit strategy. This is a high-level statement of how the Internal Audit service will be delivered in accordance with the terms of reference and how it links to organisational objectives and priorities. The Standards state that the Internal Audit Strategy should be approved by the Board (i.e. the Audit Committee). **See Appendix 4.**

8. Audit Plan ~ 2017/18

- 8.1 The Public Sector Audit Standards 2013 requires that the Internal Audit Plan is reviewed and approved by the Board (i.e. the Audit Committee). The plan outlines the assignments to be carried out and the estimated resources needed, and is sufficiently flexible to enable the Internal Audit team to respond to emerging risks. **See Appendix 5.**

9 Next Steps

- 9.1 The Committee will be kept informed about progress in terms of the audit plan.

10 Outcome of Consultations

- 10.1 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.

11 Other Courses of Action Considered but Rejected

- 11.1 Not applicable.

12 Resource Consequences

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

13 Legal Consequences

- 13.1 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.

14 Risk Assessment

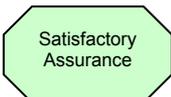
- 14.1 All Internal Audit work is undertaken using a risk based approach and as part of this process, audit findings are risk assessed prior to being reported. The risk assessment then determines the order in which control weaknesses are reported and informs the overall audit assurance opinion. See Appendix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

15 Other Considerations

- 15.1 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

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|  <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> |