

Report to Audit Committee

25th July 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 March 2017.

Recommendations

The Committee is recommended to:

- i) Note the summary of audit and project work undertaken since March 2017.

Reasons for Recommendations

- i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017).
- 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 March 2017.
- 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** (↑)¹

There is a sound system of control and controls are being complied with. One minor weakness was identified which was considered to be low priority.

3.2 Payroll

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

The auditor was able to confirm that all expected key controls were in place for the Payroll process. From the sample testing carried out, Internal Audit did not identify any areas of non-compliance. Two low priority recommendations have been made and appropriate actions have been agreed.

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 BACS

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE (↑)

Following the departure of the Senior Technical Support Analyst, it was identified that work agreed when the area was last audited had not been fully completed. This work will now be undertaken by a “third line” ICT support technician.

3.4 Project Governance ~ Broadbridge Heath Leisure Centre

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE

Most of the expected project governance controls are in place, and are operating effectively. However, the risk register proforma (provided by the external project manager) does not conform to the Council’s corporate model, and the risk register is fundamentally flawed. The risk register does not specifically identify “current” levels of risk; the Council’s risk appetite has not been considered when measuring the level of risk; and control actions are not clearly stated. The external project manager has undertaken to reconstruct the risk register so that it meets the Council’s requirements.

It is important that the above issues are resolved as soon as possible given that the contract is about to be signed and the construction stage is about to commence.

3.5 Buildings Maintenance and Facilities Management

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE (↑)

- A monthly contract variation spreadsheet is received from Scottish & Southern Electricity PLC detailing all contract costs to date. All additions to (and subtractions from) the original contract sum are recorded to give an up to date financial position. Internal Audit reviewed the spreadsheet and identified a number of discrepancies. In addition, inconsistencies were identified with the format of the document. The auditor was informed that a “reasonableness” check was being carried out rather than a detailed review. It has been agreed that the variation spreadsheet will be more rigorously checked in future, and the spreadsheet will be appropriately annotated as required to provide greater clarity.
- At the time of the audit the formal contract document was not in place between HDC and SSE. The auditor was informed that the contract document had not yet been signed by SSE although the contract had commenced in October 2015. This was raised during the audit and a signed contract is now in place.

3.6 Risk Management

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE (↔)

The risk management system operating at Horsham D.C. is an effective process that has previously been endorsed by external consultants who were appointed in 2014/15 to review the Council’s risk management and assurance framework.

The level of compliance with the risk management process is variable, and in a small number of cases, the content of departmental risk registers needs to be improved.

The requirement to escalate “red” risks to senior management has never been formally embedded, and is another area for improvement. It has been agreed that “red” risks will be discussed at future Directorate meetings and significant risks will be considered by the Senior Leadership Team for inclusion in the Corporate Risk Register.

3.7 Treasury Management

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE (↔)

The auditor was satisfied that a sound system of control is in place for Treasury Management including strategic management and oversight of investment decisions.

Audit testing identified a few areas for improvement including ensuring that evidence of checking monthly reconciliations is documented and retained. The spreadsheet system being used for monitoring movements on Money Market Funds and Pooled Funds will be reviewed to ensure it is adequate to provide a clear record of investment transactions.

3.8 NNDR

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE (↓)

- A regular review of charitable relief cases is required to ensure that the relief is still applicable. Testing of a sample of 30 cases where mandatory charitable relief was being applied (10 for each of the three CenSus authorities) identified 16 cases where mandatory relief had been approved over three years ago, but entitlement had not been reviewed since. It was also noted that the ‘Mandatory Relief – Charities’ procedure notes do not include a procedure for reviewing continued entitlement to mandatory relief. Where entitlement to charitable relief is not regularly reviewed, there is a risk that organisations may continue to receive rate relief where they no longer have charitable status. It has been agreed that a 10% check will be carried out every three years.
- Testing of a sample of 15 properties selected from inspection lists generated by the Academy system for the three CenSus authorities identified that 12 properties had not been visited during 2016/17. Where empty properties are not inspected, there is a risk that empty property relief may be given in respect of occupied properties. A new process is due to commence during 2017.

3.9 Housing Benefits

OVERALL AUDIT OPINION: LIMITED ASSURANCE (↓)

- Daily Quality Assurance (QA) checks are undertaken by CenSus throughout the year. Samples selected for testing from the Academy system are normally based on criteria which targets high risk areas. For a six month period commencing July 2016, new trainee assessors were subject to 100% checking of their assessments. During this period the normal QA arrangements for the rest of the team were

suspended. The Benefits Manager stated that resources were not available during this period to undertake QA checks of the other assessors. Whilst it is acknowledged that this was a challenge, it is clear that the change in focus had left the Council exposed to a higher level of risk in terms of the accuracy of data input.

Our audit included a review of QA checks of the other assessors prior to July 2016 (first quarter), and it was concluded that the number of errors identified during the QA checking process was not insignificant (123 errors were recorded). In particular, issues with income calculations and effective dates accounted for 72% of the errors identified during this period.

Checking of all assessors' work was subsequently reinstated. In addition the auditor was informed that all income cases would be checked prior to the subsidy audit by a team of contractors.

Data from the QA checking is maintained which identifies the main areas giving rise to error and individuals needing further training. This information will continue to be used to develop the ongoing training programme for individuals and general team needs.

3.10 Cash and Bank

OVERALL AUDIT OPINION: LIMITED ASSURANCE (↓)

- There were problems throughout the year (2016/17) in completing and balancing the monthly bank reconciliations. Work to resolve issues was ongoing and the difficulties were attributed to unavoidable staff changes and absences. The overall difference has now been reduced to £70. The monthly bank reconciliation is currently a complex and laborious manual process which will be redesigned when the new Financial Management System is introduced during 2017/18. Until the transition process has been completed, current practice will be managed to achieve an acceptable result with minimum input.
- The Financial Toolkit on the Council's Intranet requires updating to take into account changes in the Council's Constitution. It is planned to update the information on the Intranet following the introduction of the new Financial Management System. It is expected that other changes to procedure notes will be needed at that time.

4. Other Audit Work

4.1 National Fraud Initiative / Special Investigation

An investigation was carried out as a result of a data match reported by the National Fraud Initiative exercise. Internal Audit presented management with a report, and the audit findings resulted in the resignation of a member of staff.

4.2 Business Continuity (Consultancy Work)

The Council's Emergency Planning Officer completed his own review of departmental Business Continuity Plans during 2016/17. Internal audit reviewed the outcomes of the review and convened meetings with senior officers to discuss a number of concerns.

Internal Audit has made a number of recommendations and the following actions have been agreed:

- (i) Departmental Business Continuity Plans will be written for ICT and Leisure Services.
- (ii) A Business Continuity Team will be set up under the chairmanship of the Director of Corporate Resources.
- (iii) The Hop Oast Depot will be used as the Council's future "Warm Site" until application systems are moved into the Cloud. The "warm site" at Hop Oast will be operational by the end of June 2017.
- (iv) A Disaster Recovery Plan will be developed and documented by the end of June 2017.

4.3 ANPR System (Interim Report)

The Council introduced a new ticketless Parking system in August 2014. Initially the system was introduced into 'Swan Walk' before being rolled out in two other main car parks, 'The Forum' and 'Piries Place'. The system uses Automatic Number Plate Recognition (ANPR) technology supplied by Newpark Solutions.

In October 2016 Internal Audit agreed to carry out some analysis of the reports that are available from the system using the Data Analytics tools "IDEA". The purpose of the exercise was to provide Parking Services management with a greater understanding of the effectiveness of the ANPR system in meeting its objectives.

Audit tests were carried out using IDEA, and several recommendations were made. It was agreed with the responsible Director that Internal Audit should undertake some further work on a consultancy basis during 2017/18.

4.4 Orbis Partnership²

It is anticipated that the "go live" date for integration into Orbis Internal Audit services will take place on 1st April 2018. The Chief Internal Auditor now attends the Orbis managers' meetings and as part of the transition arrangements, it is anticipated that auditors will soon be auditing at different sites (resource switching) so that implementation is seamless. Orbis has developed its own set of procedures and templates which we have started to adopt.

² The Orbis Partnership comprises three sovereign authorities: Surrey County Council, East Sussex County Council and Brighton and Hove City Council.

5 Audit Plan ~ Progress Update

- 5.1 86% of the original audit plan for 2016/17 was achieved. More detail is contained in the Annual Audit Report.
- 5.2 The audit plan for 2017/18 is progressing (see Appendix 2 for the current status). It is important that there is an element of flexibility built into the annual audit plan to respond to emerging risks and changing priorities.

The following amendments have been made to the audit plan for 2017/18:

- (i) The Parking Enforcement audit has been replaced by the “consultancy” review of the ANPR system.
- (ii) The audit of mobile devices has been replaced by an audit of cyber controls (following the recent well-publicised ransomware attacks).

The audits of Parking Enforcement and Mobile Devices will be considered for the 2018/19 audit plan.

6 Next Steps

- 6.1 The Committee will be kept informed about progress in terms of the audit plan and integration into Orbis.

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

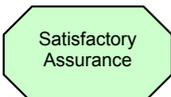
- 11.1 All Internal Audit work is undertaken using a risk based approach and as part of this process, audit findings are risk assessed prior to being reported. The risk assessment then determines the order in which control weaknesses are reported and informs the overall audit assurance opinion. See Appendix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