

Report to Audit Committee

25th July 2017

By the Chief Internal Auditor



**Horsham
District
Council**

INFORMATION REPORT

Not Exempt

Internal Audit – Annual Report

Executive Summary

This report has been compiled to:

- Provide a statement on conformance with the Public Sector Internal Audit Standards.
- Summarise the effectiveness of internal audit work.
- Summarise the work undertaken by Internal Audit during 2016/17 and provide an overall opinion on the adequacy of the Council's governance arrangements, risk management systems and control environment.

Recommendations

- i) To note the statement of compliance with the Public Sector Internal Audit Standards.
- ii) To note the performance of internal audit against performance targets.
- iii) To note the opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment, governance and risk management systems.

Reasons for Recommendations

- i) To comply with the requirements set out in the Public Sector Internal Auditing Standards 2013 (amended 01/04/17).
- ii) The Audit Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

Background Papers: Internal Audit Reports and Quality Assurance Improvement Programme self assessment document.

Consultation: N/A

Wards affected: All

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Background Information

1. Introduction and Background

1.1 Purpose of Report

The main purposes of the report are to:

- Provide a statement on conformance with the Public Sector Internal Audit Standards and the results of the Quality Assurance Improvement Programme.
- Comment on the performance of the Internal Audit Section during the year.
- Summarise the work undertaken by the Council's Internal Audit Section and provide management and Members with an opinion on the adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.

Internal audit work can provide 'reasonable', not 'absolute', assurance and it cannot guarantee that any system reviewed is free from material weakness. The opinion given on the overall system of internal control is based primarily on the audit work undertaken.

1.2 Quarterly Reports

The Audit Committee receives quarterly reports on the work carried out by Internal Audit as part of the Council's governance arrangements.

1.3 Strategic Audit Plan

The Internal Audit Team works to a four year strategic audit plan, prepared by the Chief Internal Auditor, and aims to review the Council's major areas of operation and systems on a rolling cycle. The strategic plan was developed using a risk-based assessment which determines priorities and time allocations for each audit. Areas and systems which are considered to be fundamental to the Council's operations, or that are considered to be high risk, are normally reviewed on an annual basis.

1.4 Staffing

During 2016/17, the audit team operated with 3.6 members of staff (three full time employees and one part-time). All auditors have the requisite experience to effectively fulfil their responsibilities, and three members of staff are professionally qualified.

2. Relevant Policy / Professional Standards

2.1 Statutory Background

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.

2.2 Relevant Professional Standards

Internal Audit follows the standards set out in the Public Sector Internal Audit Standards 2013 (updated 01/04/17).

The Chief Internal Auditor is required to report on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council’s governance arrangements, risk management systems and internal control environment.

2.3 Relevant Council Policy

The Council’s Constitution supports the statutory requirements outlined above. 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. Compliance with the Public Sector Internal Audit Standards

- 3.1 The Council’s Internal Audit Service is operated in accordance with the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1st April 2013. The standards require the Chief Internal Auditor to undertake a self-assessment of the internal audit service against a Quality Assurance and Improvement Plan (QAIP) checklist and to outline the results as part of the Annual Audit Report.
- 3.2 There are a few areas of non-conformance which are detailed in Appendix 1. The only significant issue relates to the requirement for the internal audit function to be reviewed by an external organisation on at least a five yearly basis.
- 3.3 It was originally intended that Horsham would be externally reviewed during 2016/17, but the review was postponed due to the uncertainty surrounding the future service provision of the audit service. From 1st April 2018, the Internal Audit service will be provided by Orbis¹ who will commission their own external review.

¹ Orbis is a new Internal Audit Partnership being formed between Surrey County Council, East Sussex County Council, and Brighton & Hove City Council.

3.4 Internal Audit Team has maintained its independence throughout 2016/17 in accordance with the Audit Charter.

4. Effectiveness of Internal Audit

4.1 Performance against the Annual Internal Audit Plan

The Internal Audit team uses a risk based approach when determining the annual audit plan and undertaking audit assignments. In order to respond to new risk areas identified during the year, the audit plan was sufficiently flexible to allow for additional audits to be undertaken.

During the year, 86% of audits were completed against a target of 85%. A summary is given below:

	<u>No. of Audits</u>
Original Audit Plan	36
(Less) audits not completed	<u>(5)</u>
	<u>31</u>

The following pieces of work were also undertaken:

- Audit of the new bulky bag process.
- Disabled Facilities Grant Certification audit.
- Review of the Housing Benefit Subsidy for 2015/16 and subsequent consultation with the Director of Corporate Resources and Members.
- Three special investigations completed.
- National Fraud Initiative work.
- Development of a project risk management toolkit.
- Routine risk management training to a number of service managers and risk champions.
- Audit testing of a new supplier e-form.
- Review of new E-Bay Protocol.
- Project lead on proposed shared service with Arun and Chichester District Councils.

Planned reviews not undertaken:

- IT / Data Governance.
- Computer Audit ~ New Finance System.
- Use of Consultants.
- Ethics, Values and Behaviours.
- Communications / Marketing.

4.2 Implementation of agreed actions within the agreed timescale

The percentage of agreed action items implemented is one of the measures used to demonstrate the effectiveness of the section, although the actual implementation of agreed actions is a management responsibility.

From a review of 135 agreed actions for the previous financial year (2015/16), 128 have been implemented (95%) which is a slight improvement on the previous year. Details continue to be reported to the Audit Committee which monitors progress on a quarterly basis.

4.3 Reporting

“Draft” audit reports and working papers are subject to a quality review undertaken by the Chief Internal Auditor (CIA) before the final report is issued. There is a performance indicator which measures the percentage of audit reports issued within 15 days of the final audit meeting. The target for 2016/17 was set at 85%, and 88% has been achieved.

Upon receipt of the “points arising” documents from auditors, the CIA undertakes to issue the “points arising” document within 15 days of receipt. Prior to issue, all relevant working papers are reviewed, the points arising document is checked, and further information is requested where appropriate. The target for 2016/17 was set at 85%. This is a challenging target as it does not take into account annual leave absences and busy periods. However, 77% was achieved.

4.4 Management Feedback

On completion of each audit assignment, the Chief Internal Auditor consults management formally to obtain their opinion on the approach and value of the audit work. 12 responses were received, expressing 120 constituent opinions, and these are summarised as follows:

Very Satisfied	66
Satisfied	54
Unsatisfied	0

The percentage of “very satisfied” and “satisfied” responses achieved was therefore 100% against a target of 95%.

5. Opinion on the Control Environment

- 5.1 This section of the report draws attention to any issues the Chief Internal Auditor considers are particularly relevant to the preparation of the Annual Governance Statement and includes an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment and discloses any qualifications to that opinion, together with the reasons for the qualification.
- 5.2 The overall opinion is that "**Satisfactory**" assurance can be given that there is generally a sound system of internal control designed to meet the Council's objectives, and that the controls are generally being applied consistently. The opinion is based upon audit work undertaken during the year. The number of outstanding agreed action items from audit follow ups has also been taken into account.

Assurance Areas:	
Governance	<p>The Council is committed to the principles of good corporate governance, which are already demonstrated through many aspects of good practice.</p> <p>A number of improvements have been made in respect of the Council's Governance Framework during 2016/17. In particular, the Council's Constitution has been re-written and condensed to reduce bureaucracy. A review of Governance and the revised Constitution attracted national recognition from CIPFA and Lawyers in Local Government.</p>
Risk Management	<p>The Council's risk management framework has been further embedded into the culture of the organisation, and a risk management toolkit specifically for projects has been developed.</p>
Internal Control	<p>The table of internal audit assurance opinions, in Appendix 2, shows the individual audit opinions from the audit assignments undertaken during 2016/17. Where significant control weaknesses have been identified, remedial action has either been implemented or is programmed to be implemented within three months in accordance with the Council's risk appetite.</p>

5.3 Qualification to the Opinion

The audit opinion is based upon, and limited to, the work performed during the year. The opinion does not imply that Internal Audit has reviewed all risks and controls relating to the Council, but is based upon the range of individual opinions arising from risk based audit assignments completed during 2016/17. Opinions for individual audits are detailed in Appendix 2 of this report, and definitions of the opinions can be found in Appendix 3.

6. Next Steps

Not applicable.

7. Outcome of Consultations

Not applicable.

8. Other Courses of Action Considered but Rejected

Not applicable.

9. Resource Consequences

There are no direct staffing consequences.

10. Legal Consequences

There are no financial 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

The Internal Audit function contributes to the effectiveness of the Council's risk management arrangements.

All Internal Audit work is undertaken using a risk based approach.

12. Other Considerations

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

PSIAS Quality Assurance & Improvement Plan ~ Results of Self-Assessment

Standard	Requirement	Explanation / Actions
1110	<p>Organisational Independence</p> <p>The Chief Internal Auditor (CIA) should report “functionally” to the Board.</p>	<p>At Horsham, the CIA reports functionally to the Audit Committee which is responsible for:</p> <ul style="list-style-type: none"> • Reviewing and approving the Internal Audit Charter. • Reviewing and approving the Internal Audit Strategy. • Reviewing and approving the Annual Internal Audit Plan. • Receiving communications from the Chief Internal Auditor on the Internal Audit activity’s performance relative to its plan and other matters. • Making appropriate inquiries of management and the Chief Internal Auditor to determine whether there is any scope or budgetary limitation that impedes the ability of the internal audit activity to execute its responsibilities. <p>As stated in the Internal Audit Charter, full Council is responsible for the following:-</p> <ul style="list-style-type: none"> • Approving the internal audit budget. • Approving decisions regarding the appointment and removal of the Chief Internal Auditor. • Approving the remuneration of the Chief Internal Auditor. <p>The Director of Corporate Resources is responsible for approving the resource plan.</p>
1312	<p>External Assessments</p> <p>External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.</p> <p>The scope of the assessment and qualifications / independence of the external assessor must be agreed with the Board.</p>	<p>A cost-effective, collaborative arrangement for external reviews has been agreed amongst local heads of audit within Sussex.</p> <p>However, following the recent decision to outsource the audit function to Orbis, the external review has been postponed.</p>

1321	<p>Use of “Conforms to the International Standards for the Professional Practice of Internal Auditing”.</p> <p>The Chief Internal Auditor may only state that internal audit activity “conforms” if the results of the Quality Assurance and Improvement Programme (QAIP) support this statement.</p>	<p>Until an external assessment has been conducted, as required by the QAIP, a full conformance statement is not appropriate.</p>
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Appendix 2

AUDITS	INTERNAL AUDIT ASSURANCE OPINIONS			
	SUBSTANTIAL	SATISFACTORY	LIMITED	NO ASSURANCE
Private Sector Housing Assistance Grants	✓			
Building Control Partnership	✓			
Security			✓	
Recruitment		✓		
Emergency Planning		✓		
Release & Change Management		✓		
PCI-DSS			✓	
Events Management		✓		
Complaints Management		✓		
Software License Management		✓		
Contracts			✓	
Special Collections (Bulky Waste)				✓
Disposal of Bulky Bags	✓			
Debtors		✓		
Creditors		✓		
Budgetary Control		✓		
Council Tax	✓			
Housing Benefits			✓	
Buildings Maintenance & Facilities Management		✓		
Payroll	✓			
Cash & Bank			✓	
BACS		✓		
NNDR		✓		
Treasury Management		✓		
Risk Management		✓		
Project Management Governance		✓		

Note: Internal audit at Horsham audited the Housing Benefits system on behalf of Horsham, Mid Sussex and Adur District Councils (the CenSus Partnership). The opinions for Council Tax and NNDR have been provided by the Internal Audit teams working on behalf of Mid-Sussex District Council and Adur/Worthing District Council respectively, and reliance has been placed on this work.

Appendix 3

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 level of risk is considered to be minimal.</p>
 <p>Satisfactory Assurance</p>	<p><u>System of Control:</u> Whilst there is an adequate system of control and all key controls² 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>

² A **key control** is defined as a control or a group of controls that help to reduce an otherwise unacceptable risk to a tolerable level (i.e. to within the Council's risk appetite).