

Report to Audit Committee

13th December 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 July 2017.

Recommendations

The Committee is recommended to:

- i) Note the summary of audit and project work undertaken since July 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 summary of work undertaken by the Internal Audit Team since July 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 Use of Consultants

OVERALL AUDIT OPINION: REASONABLE ASSURANCE (↑)¹

The Council obtains great benefit from the use of consultants, and it was noted that some departments (for example, Strategic Planning & Development) regularly engage consultants to obtain advice and skills that would not ordinarily be available from the Council’s permanent employees.

The Council’s “Consultancy Agreement” template produced by the Legal and Democratic Services team is a particularly well written document and helps to ensure that appropriate conditions are included within the contract.

The main finding from the audit was that there has been some general confusion concerning the difference between consultants, agency workers, interim managers and other temporary staff. As a consequence of this, it has been difficult to identify accurate records for consultancy expenditure. The lack of a clear definition and the

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

shortcomings in the coding of expenditure has meant that a significant amount of temporary worker and interim management costs have been inadvertently charged to the consultancy expenditure code. This not only over-inflates the reported cost of consultancy to the Council; it is also hides the true cost of covering for vacant posts and/or long-term sickness.

It was agreed that the Procurement Intranet pages would be updated to show the Central Government (Cabinet) definition of a consultant. In addition, it was agreed that officers would be reminded of the importance of accurately coding expenditure as part of the user training provided during the implementation of the new Technology One (Finance) system. Officers are encouraged to seek assistance from the Procurement team as appropriate.

3.2 Forward Plan

OVERALL AUDIT OPINION: REASONABLE ASSURANCE

Monthly e-mails are sent to service managers reminding them that they should notify the Democratic Services Manager of any “Key Decisions” which the Cabinet or Cabinet Member intend to make. The Monitoring Officer has provided training to Heads of Service about the importance of the Forward Plan, and the Senior Leadership Team reviews the Forward Plan regularly as part of their routine weekly meetings.

The Forward Plan is easily accessed via the Council’s website and the up-to-date version is attached to each Cabinet agenda as a standard item. Contact details for members of the public wishing to make representations are printed on the document.

Audit testing did not identify any specific key decision taken since June 2016 which had not been included on the Forward Plan. However, it has been agreed that the Procurement Officer will now routinely inform the Democratic Services Manager of any major contracts and tenders being advertised. This is an enhancement to the current process and will help to ensure that the Forward Plan is accurate and up to date.

3.3 Commercial Rents

OVERALL AUDIT OPINION: REASONABLE ASSURANCE (↔)

The auditor was satisfied that officers within the Property team routinely liaise with local and specialist agents to ensure all property deals contribute the best possible return, taking into account market conditions, council strategic priorities and any relevant risk factors. The Council monitors the percentage of its commercial estate that is occupied as a key performance indicator. The level of voids is low and the performance has exceeded the target for a number of years.

Property valuations are updated on a five year rolling programme in line with Council policy. The valuations are reviewed by experienced Council surveyors to ensure they are reasonable and follow professional guidance. The resulting

valuations are used to calculate the rate of return on property that is published as a key performance indicator.

The auditor raised two main concerns:

- (i) The Council had engaged a management agent to deal with the tenancies on its three industrial estates (Oakhurst Business Park, Blatchford Close and Lintot Square). The contract commenced on 1 February 2017 but, at the time of the audit, the formal contract had not been signed and procedures for managing the contract were still under development. Regular meetings (at least quarterly) are now being held with the Management Agents to update actions needed to deliver the contract.
- (ii) The auditor noted that rent arrears on accounts that are managed by the Management Agents had increased from £26,675 (as at 20 April 2017) to £95,373 (as at 31 August 2017). The increase in arrears had come about in part because of the loss of direct debit as a means of rent collection. It has been agreed that the level of rent arrears will be reviewed with the Management Agents at the quarterly contract management meetings as a standing agenda item.

3.4 New Finance System ~ Data Migration

OVERALL AUDIT OPINION: REASONABLE ASSURANCE (↑)

On 4th September, the Council's Finance system (TOTAL) was replaced by a new system (Technology One) which is a cloud hosted system and can be accessed remotely. The primary benefit of having a cloud hosted system is that it provides the Council with an element of resilience in terms of business continuity planning and disaster recovery.

Internal Audit had some early involvement in the FMS Replacement project, but this was restricted to commenting on the system specification and evaluation criteria for the selection of a preferred solution. At the time, the Council was working together with Adur/Worthing Councils. In order to retain independence Internal Audit was not involved during the procurement and selection stages of the project.

It was agreed that Internal Audit would carry out further work during the implementation stage for the purposes of providing assurance on the acceptance testing and deployment of Technology One as the project reached its conclusion. The decision to adopt a "Big Bang"² approach to implementing Technology One (rather than running the two systems in parallel) meant that much of the user acceptance testing would be carried out on the live system after implementation. For this reason Internal Audit's work was focused on supporting the data migration process and providing independent assurance that balances transferred from the old system to the new were correct.

The auditor was able to provide "*Reasonable Assurance*" that effective arrangements and controls were in place for ensuring that data was migrated to the

² With the "big bang" approach, the switch between using the old system and using the new system happens on one single date, the so-called "instant changeover" of the system.

new system completely and accurately. It was agreed that the Systems Accountant would take such action as required in order to establish the reason for the discrepancies highlighted in the reports supplied by Internal Audit and make the required adjustments.

Internal audit raised concerns in the audit report that the Council had placed significant reliance on the technical expertise of one individual (i.e. the Systems Accountant) to implement the new Finance system. It was agreed that the Head of Finance would discuss, with the Director of Corporate Resources, the need to identify a second Systems Administrator (within Finance or IT) to provide support to the Systems Accountant, and to cover periods of absence.

3.5 Taxi Licenses

OVERALL AUDIT OPINION: REASONABLE ASSURANCE

The auditor concluded that there is a sound system of control in place for the administration of the Hackney & Private Hire Licences system.

A few weaknesses were identified which are outlined below:

- It was identified that inspections of vehicle registration documents, bill of sale forms and vehicle service records were not always being evidenced. It was agreed that evidence will be recorded in future.
- There is no formal inspection programme for Private Hire Operators. It has been agreed that all Private Hire Operators will be subject to a formal inspection at least every three years and the notes of these will be recorded within the "Notes" facility within the Diamond Licensing system.

3.6 Community Link

OVERALL AUDIT OPINION: REASONABLE ASSURANCE (↔)

The Community Link Service is accredited to the TSA (Telecare Services Association) Quality Standards Framework following an audit carried out in May 2017. Community Link Advisors are all trained to advise and install the correct equipment to customers. All staff have been subject to enhanced DBS (Disclosure and Barring Service) checks.

The auditor confirmed that the monitoring of customer accounts is timely and the level of arrears is low. The Service maintains detailed customer records including information on the equipment installed. Budget monitoring of income and expenditure is undertaken on a monthly basis in accordance with Council procedures. Policies and procedure notes are in place covering all aspects of the Community Link service. These are reviewed and updated regularly.

A few concerns were raised which are summarised as follows:

- The basis of the procurement arrangements for the equipment and devices used by the service has not been reviewed recently and work is needed to ensure that the Council's own Procurement regulations have been followed. It has been agreed that advice will be sought from the Council's Procurement Team.
- The Community Link records are currently maintained on an Access database and there are no direct links between the 'customer' records and the 'stock' records. The provision of a new 'bespoke' IT platform to provide enhanced functionality with improved links was underway but progress was slow. A target completion date of the 31st December has now been agreed with the Council's Technology Services department.

4. Other Audit Work

4.1 Internal Audit has been involved in a number of activities since the last report to the Committee:

- DFG Grant Certification work.
- Duplicate Creditors Testing.
- Review and update of the Council's risk management toolkit.
- Risk management training / mentoring to the new Director and new Heads of Service.
- Advice provided to Members on the workings of the Housing Benefits subsidy.
- Provision of support to the Policy and Performance team for the 2016/17 Annual Governance Statement.
- Active participation in GDPR Project Board meetings.
- Active participation in Corporate Governance Group meetings (held quarterly).

4.2 Orbis Internal Audit

A significant amount of time has been spent in preparing for the transfer of the Council's Internal Audit Service to Orbis³. The Orbis Partnership has its own programme of work, and the Horsham Internal Audit team has contributed towards many of the various work streams (for example: Audit Processes; Committee Report Template; Audit Management System and Data analytics).

There is a separate project plan for the Horsham integration work stream, and everything is currently on track for implementation on 1st April 2018. A Partnership Agreement has been drafted and this is currently being vetted by the East Sussex C.C and Horsham D.C Legal teams. The TUPE consultation is scheduled to commence on 12th January 2018. Orbis internal audit templates and processes for

³ The Orbis Partnership comprises three sovereign authorities: Surrey County Council, East Sussex County Council and Brighton and Hove City Council.

audit field work have already been adopted as part of the transition work so that integration is as seamless as possible.

5 Audit Plan ~ Progress Update

- 5.1 The audit plan for 2017/18 is progressing (see Appendix 2 for the current status). 7/24 pieces of work have been completed (29%) and 8 other work streams are currently in progress.
- 5.2 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 were reported to the Committee in the July report:

- (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).

With the agreement of the Director of Corporate Resources, and taking into account the current level of resources, it has been agreed that “Cloud Computing” and “Rural Car Parking” will be dropped so that the team can focus on the delivery of the remainder of the plan. The Cloud Computing project has not evolved in accordance with our original expectations, and Rural Car Parking is not considered to be sufficiently high risk compared to other areas on the plan.

It was originally planned that we would undertake a formal audit follow up of the security of the Council’s buildings, but this has been substituted for a formal follow up of special collections (bulky waste) following our “No Assurance” opinion of this area earlier this year. Outstanding agreed actions from our security audit continues to be monitored through our action tracking process.

The team is still aiming to achieve 85% of the audit plan which was the target set at the beginning of the year.

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 the Orbis audit report assurance definitions which have now been adopted.

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

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.