

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

23rd March 2016

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 December 2015.

Recommendations

The Committee is recommended to:

- i) Note the summary of audit work undertaken since December 2015 and review progress in terms of the audit plan.
- ii) Approve the Internal Audit Strategy
- iii) Approve the Internal Audit Plan for 2016/17
- iv) Approve the revised Internal Audit Charter

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 December 2015.
- 1.2 The Accounts and Audit (England) Regulations 2011 state that “a relevant body (*the Council*) must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.” 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 Regulation FR27 states that the Director of Corporate Resources shall maintain a continuous, comprehensive and up-to-date internal audit. The Chief Internal Auditor is required to report on a quarterly basis on the work of internal audit, and 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.

3 Summary of Audit Findings

3.1 Building Control

OVERALL AUDIT OPINION: **SUBSTANTIAL ASSURANCE** (↔)¹

The Sussex Building Control Partnership has sound governance arrangements, and the processes for administering building control fees are tightly controlled. Audit testing identified that all expected controls for the operation of the Partnership and the collection of fee income are being consistently applied.

3.2 NNDR

¹ The symbols in brackets indicate the movement in the level of assurance when the area was last audited.



= Improved.

(↔) = No change.



= Reduced.

Blank = No previous opinion

OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE (↑)

There is a sound system of control in place for the processing of NNDR for the CenSus Partnership. Audit testing identified that, in general, expected controls are being consistently applied. The auditor identified some areas for improvement, but the associated level of risk is considered to be low.

3.3 Housing Allocations (↔)

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE

Controls for the management of the housing waiting list are generally working effectively. The Council has written procedures in place and information is available to the public both on-line and at the Council's Housing drop-in sessions where advice is provided. However, the standard of documentation supporting decisions made could be improved. Staff will be reminded to use the 'note' facility on the Housing system where necessary, or to ensure relevant documentation is scanned into the Information at Work system.

3.4 VAT

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE

Audit testing found that controls to ensure compliance with VAT regulations, including the accurate and timely submission of VAT returns to HMRC, are generally sound. The Council has arrangements in place to access advice and guidance on complex technical issues. Testing identified no significant discrepancies in the processing of debtor and creditor invoices.

Additional training will be provided to Finance staff to improve the coding of non-VAT invoices and to ensure that descriptions on debtor invoices are adequate.

3.5 DEFRA Grant (Flooding)

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE

Horsham D.C. paid out 21 claims by applicants in the District, totalling £85,802 between 10th October 2014 and 30th June 2015. Eight of these were for the maximum amount of £5,000. A sample of eight individual claims was tested. All payments were correctly authorised.

A few control issues were identified in terms of a lack of documentation being provided and a lack of 'evidence' that any inspections had taken place (a level of 5% was expected). It has been agreed that this aspect will be tightened up in future.

3.6 Council Tax: **SATISFACTORY ASSURANCE** (↔)

The audit of Council Tax has been undertaken by the Internal Audit Team working on behalf of Adur & Worthing Councils. Their conclusion was that *“while there is a basically sound system of internal control, there are weaknesses which put some of the client’s objectives at risk”*.

The main audit finding concerned the lack of a timely review of discounts, disregards, exemptions and disablement reductions. Although Council Tax legislation does not specify the frequency of reviews of discounts and exemptions, it was accepted that there is a need to safeguard the partnership authorities against the risk of financial loss. Software has now been purchased to facilitate the review process and it is envisaged that regular reviews will begin in the summer.

4. **Audit Plan ~ Progress Update**

- 4.1 The audit plan remains on track, and it is anticipated that all assignments will be completed in the current financial year with the exception of contracts, customer service / complaints management and ICT Asset Inventory. Please see **Appendix 3** for summary of progress. The audits that have not been completed during 2015/16 will be carried forward to the 2016/17 audit plan. The audit of contracts has been delayed to allow new procedures to “bed in” following recent changes in EU Legislation.

Audit reviews of ‘Back-up and Recovery’ and ‘Declarations of Interest’ have been added to the audit plan for 2015/16. These were carried forward from the previous year. A DEFRA Flooding Grant Certification audit has also been undertaken at short-notice to confirm that monies have been appropriately spent in accordance with DEFRA’s Memorandum of Understanding

5. **Internal Audit Strategy**

- 5.1 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 Accounts, Audit and Governance Committee). **See Appendix 4.**

6 **Internal Audit Plan 2016/17**

- 6.1 The Public Sector Audit Standards 2013 requires that the Internal Audit Plan is reviewed and approved by the Board (i.e. the Accounts, Audit and Governance 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 changing risks and priorities of the organisation. **See Appendix 5.**

7 **Internal Audit Charter**

- 7.1 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 Accounts, Audit and Governance Committee). The Audit Charter has been comprehensively reviewed and updated to ensure full compliance with professional standards. **See Appendix 6.**

8 Next Steps

- 8.1 Not applicable.

9 Outcome of Consultations

- 9.1 Not applicable.

10 Other Courses of Action Considered but Rejected

- 10.1 Not applicable.

11 Financial Consequences

- 11.1 There are no financial consequences.

12 Legal Consequences

- 12.1 There are no Legal consequences.

13 Staffing Consequences

- 13.1 There are no staffing consequences.

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 opinion (see Appendix 2 for definitions).

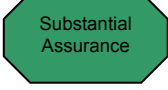
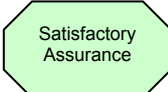


Appendix 1

Consequences of the Proposed Action

How will the proposal help to reduce Crime and Disorder?	This report has no effect on Crime & Disorder issues.
How will the proposal help to promote Human Rights?	The audit plan is undertaken in a way that encompasses the Council's overall corporate aims, objectives and values.
What is the impact of the proposal on Equality and Diversity?	Not relevant.
How will the proposal help to promote Sustainability?	This report has no effect on sustainability.

Appendix 2

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>