

**EXECUTIVE MANAGEMENT TEAM – 25 JUNE 2012
AUDIT COMMITTEE – 6 JULY 2012**

ANNUAL INTERNAL AUDITORS REPORT 2011/12








1.0 INTRODUCTION:






- 1.1 Internal Audit has an important role to play in ensuring that the responsible Finance Officer safeguards the Council’s financial affairs by monitoring the control environment as defined by Section 151 of the Local Government Act 1972.
- 1.2 The Accounts and Audit Regulations 2011, requires that a ‘relevant body shall maintain an adequate and effective system of internal audit of their accounting records and financial systems’. It further requires organisations to annually review the effectiveness of Internal Audit.
- 1.3 This report summaries the performance of Internal Audit for the year ended 31st March 2012 against the approved internal audit plan and includes the Auditors’ opinion on the level of assurance surrounding the control environment.

2.0 INTERNAL AUDIT PLAN ANNUAL REVIEW

- 2.1 The work of the Internal Audit section is managed through a risk based assessment of Strategic Plan drawing down an annual Operational (Tactical) Plan for the financial year under review.
- 2.2 Core work includes the completion of the “main financial” audits, key outcomes are recorded in table 1. The splitting of main financial audits into full system audits and walkthrough audits over a three year cycle has continued in line with the Joint Working Protocol with the External Auditor (Audit Commission).

Table 1 – Main Financial Audits

Audit Area	Comments	Assurance
General Ledger	Full system audit, with reasonable assurance surrounding the control environment was reported. 4 recommendations were made, which management agreed to implement.	
Bank Reconciliations	Full system audit, which provided two assurance levels. The Payments and Housing Benefits reconciliations were provided with a substantial level of assurance. The General account was given limited assurance as the reconciliation was behind at the time of the audit following a retirement. Audit was informed that the bank reconciliation was brought up to date by the year end.	
Treasury Management	Full system audit, with reasonable assurance reported.	
Income Manger	Full system audit, with a number of recommendations made surrounding petty cash and some general security points. The key operating process within the cash offices have sound arrangements in place.	
Asset Management	Full system audit, which partially relied upon testing undertaken in a related audit completed earlier in the year (Estates and Valuations). The key risk related to completing valuations by the year end. Valuations were completed within deadlines by a third party.	
Council Tax	Walkthrough audit review, which reported sound arrangements are in place. The bailiff contract is now agreed.	
Benefits	Walkthrough audit review, which reported sound arrangements are in place. It was agreed that refresher training for Data Protection would be arranged.	

Business Rates	Walkthrough audit review, which reported sound arrangements are in place.	
Housing Rents and garages	The risk assessment identified no significant changes to the sound system of control reported in 2010/11. No additional testing was carried out as part of this years plan.	
Accounts Payable	This was recorded as a walkthrough audit in the joint working protocol, however having undertaken a risk assessment additional testing was undertaken. Audit reported reasonable assurance although a number of recommendations were made. Some of these actions will be implemented alongside the contract project and others were implemented with immediate effect. To provide an ongoing review, audit receives a daily report of payments processed outside of the inbuilt computer controls. This allows for continuous monitoring and aids real time auditing. This new initiative has been successful and will be implemented to other relevant areas such as payroll.	
Accounts Receivable	This was recorded as a walkthrough audit in the joint working protocol, however having undertaken a risk assessment additional testing was undertaken. Recommendations have been made, key areas were in relation to migrating one off invoices from the unsupported part of the system and improved performance monitoring.	
Payroll	This was recorded as a walkthrough audit in the joint working protocol, however having undertaken a risk assessment additional testing was undertaken. Recommendations were made, the key point being in relation to checking of control reports in a timely manner. Limited assurance was provided as a result.	

Key:



Sound controls are in place.



Additional testing has confirmed information is correct although there were control weakness.

- 2.3 Other key audits completed during the year included major reviews of the Estates and Valuations and Health and Leisure centres and Leader grants in compliance with external requirements. Recommendations made were in relation to the major reviews, which are being addressed. There were 16 "Other systems audits" planned, of which 11 were reviewed in full or part. (Three audit reports were issued early 2012/13).
- 2.4 Recommendations made as a result of the audit review, are graded (high, medium and low priorities) and recorded in action plans which are discussed and agreed with service managers. The internal audit team actively monitors implementation progress of recommendations made.
- 2.5 Auditors have also worked with Heads of Service;
- to help develop more efficient systems and savings (i.e. Bank tender and service review)
 - to assist the delivery of corporate projects meeting Council objectives. (i.e. Dibden Golf Course management contract and Ringwood Gateway)
 - to bring in new policies following changes to legislation (i.e. Bribery Act)
- 2.6 The audit service was restructured mid year, with a change in management and working arrangements. The estimated number of productive days totalled 883. Actual productive days were 786, some 93 days less. This was primarily due to maternity leave which was not covered. A summary of time spent against the approved plan is recorded in Appendix 1.
- 2.7 General advice, guidance and support is provided across the Council. These audit responses are recorded as contingencies, together with unplanned work, where time spent exceeds 15 minutes. In the year these tasks were recorded totalling 111 days against an estimate of 130 days.

- 2.8 Internal Audit supported 6 investigative reviews (18 in 10/11) over 28 days (48 in 10/11). The investigations were largely prompted by management, who together with staff, generally have a very positive attitude towards whistleblowing and anti-fraud. There were no significant systems weaknesses or fundamental break down in controls associated with these reviews, although some follow up action was taken to improve controls.
- 2.9 Internal audit continued to provide corporate contract and procurement advice throughout the year on a range of planned contracts. During the year internal audit worked with a small team which was formed to review contract practices.
- 2.10 The internal audit team also led the procurement exercise of the corporate banking contract which has resulted in savings over the length of the contract of circa £550k. Audit will continue to work with financial teams to implement the change of bank accounts.
- 2.11 Members of the team attended the Hampshire & Isle of Wight Audit Alliance (HIOWAA), which was formed to develop information sharing, development of audit best practice and interpretation of regulations, legislation and professional standards. The HIOWAA facilitates specialist sub-group meetings on ICT and Fraud.

Working with Partners

- 2.12 To help both the effectiveness and efficiency of audit, Internal Audit works in partnership with the external auditor (Audit Commission) under the Joint Working Protocol. The team carried out three quarters of the Benefits grant work during 2011/12, not only did the team benefit from the opportunity to gain new skills and experiences but also contributed towards a significant saving to the Council in external audit fees. (circa £30,000)
- 2.13 During 2011/12 the internal audit team acted for the first time as the internal auditor for the New Forest National Park Authority. This work is undertaken under a Service Level Agreement (SLA) for an agreed sum. An additional assignment was undertaken which was separately charged. This work will continue into 2012/13.
- 2.14 Internal Audit also undertakes responsibilities for two Town Councils during 2011/12. This work is fee based.

3. AUDITORS OPINION

- 3.1 Having considered the findings from the work undertaken by Internal Audit during 2011/12, the Council's overall internal control system is considered to be adequate to safeguard the Council from losses arising from fraud, error or inefficient administration. This opinion provides one stream of information to inform the Annual Governance Statement.

4.0 FINANCIAL IMPLICATIONS:

- 4.1 There are no financial consequences arising directly from this report, although a robust internal audit function helps to protect the Council from financial loss.

5.0 EQUALITY & DIVERSITY AND ENVIRONMENTAL MATTERS:

- 5.1 No equality and diversity or environmental matters are associated with this report.

6.0 CRIME & DISORDER IMPLICATIONS:

6.1 The service has responsibility for the prevention and detection of fraud but there are no direct crime and disorder implications arising from this report.

7.0 RECOMMENDATIONS:

7.1 To consider the annual report and opinion and the level of assurance it can give over the adequacy of Council's internal control systems.

7.2 To consider the effectiveness of the internal audit function in line with the Accounts and Audit Regulations 2011.

For Further Information Contact:

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Background Papers:

Audit Plan 2011/12 (Standards Committee 27/5/11)

Actual Time against the approved Annual Audit Plan 2011/12

Audit Type	Approved Audit Plan 2011/12 (A)	Actual Time spent (B)	Variance (A-B)
Main Financial Audits/ Fundamental systems	210	233	+23
Other Systems Audits including follow up work	192	146	-46
Specific IT Audits	35	12	-23
Advisory Core Work	56	48	-8
General Audit Liaison and Development	59	33	-26
Value for Money and Corporate Consultancy	131	101	-30
Corporate Fraud and Irregularity work	56	47	-9
Corporate Contract Work	82	96	+14
Total Allocated Productive Time NFDC	821	716	-105
External Work	62	70	+8
Total Allocated Productive Time All	883	786	-97
Contingencies	130	111	-19
Non Productive Time including Training	227	250	+23
Total Days	1240	1147	-93

