

Annual Internal Audit Report & Opinion

2018 - 19

New Forest District Council



Southern Internal Audit Partnership

Assurance through excellence
and innovation

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body 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.’

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].



The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.’

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation’s objectives.

2. Internal Audit Approach

To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Chief Internal Auditor and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisation's success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



3. Internal Audit Opinion

The Deputy Head of the Southern Internal Audit Partnership (SIAP) is the Council's Chief Internal Auditor and is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of New Forest District Council's audit need that has been covered within the period.

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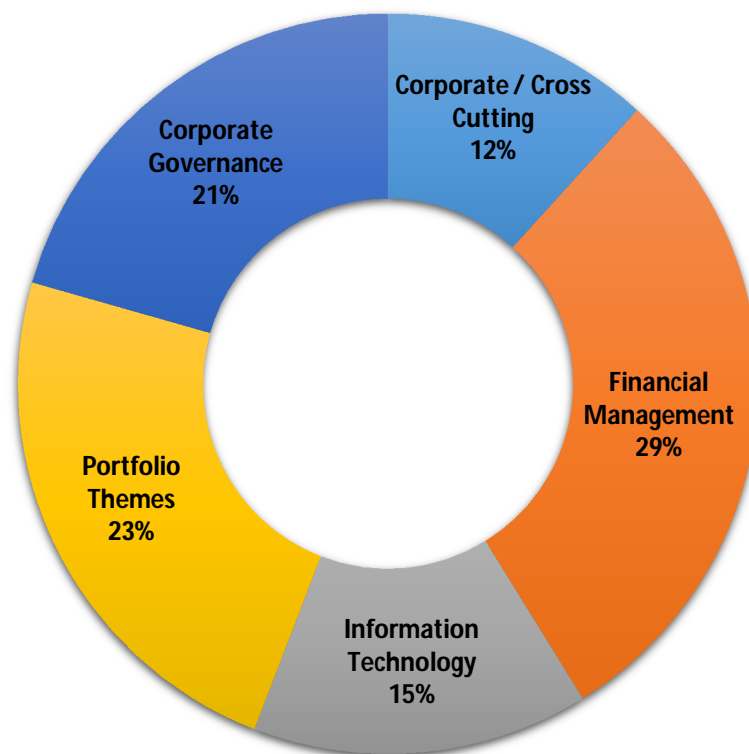
"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of New Forest District Council's internal control environment.

In my opinion, New Forest District Council's framework of governance, risk management and control is 'Adequate' and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed in order to obtain sufficient information and explanation considered necessary to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2018-19 Internal audit plan, approved by the Audit Committee in March 2018, was informed by internal audits own assessment of risk and materiality, in addition to consultation with management, to ensure it aligned to key risks facing the organisation.

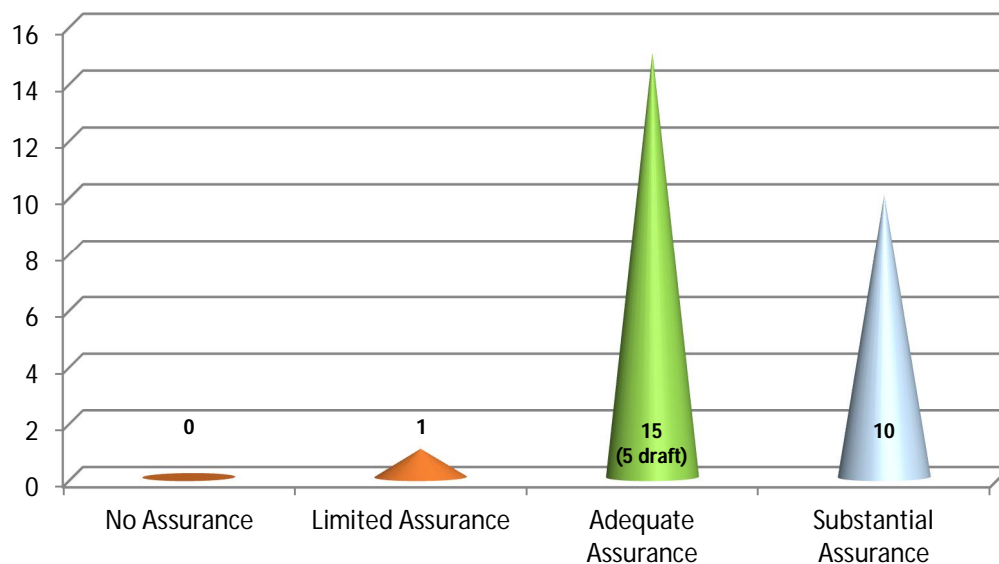
The plan has remained fluid throughout the year to maintain an effective focus and the revised plan was presented to and agreed by the Audit Committee in October 2018.

In delivering the internal audit opinion the Southern Internal Audit Partnership have undertaken 34 reviews during the year ending 31 March 2019.

The revised 2018-19 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed and agreed for 5 reviews which have been considered when forming the 2018-19 annual audit opinion, although final reports have yet to be issued;
- Fieldwork remains in progress with the Housing Asset Management review therefore the outcome of this audit will be considered when forming the 2019-20 annual audit opinion.

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:



Substantial - A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified;

Adequate - Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified;

Limited - Significant weakness(es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk; or

No - Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives

*7 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, advice, assurance mapping, a follow-up of previous audit findings and resulting action or concluded with a position statement.

5. Key Observations

In general, internal audit work found there to be sound control environments in place across the majority of review areas that were working effectively to support the delivery of corporate objectives. There were no 'No Assurance' opinions issued during the year. Only the Environmental Services – Trade Waste audit concluded with a 'Limited' assurance opinion as outlined below:-

Environmental Services – Trade Waste. Following both management and service administration staffing changes, the new Service Manager identified areas of weakness and requested Internal Audit complete an end to end process review, with a specific focus on the costing elements, to help inform a Service review and the development of a new Service Plan.

There were known issues with the accuracy of disposal data which informs the charges paid to Hampshire County Council. The Service Manager is keen to address the issue and had initiated a sound sampling process/methodology to enhance data accuracy (e.g. average weight of bags/bins) which was still in progress at the time of the review. The accuracy of data and practice of co-collection with domestic waste had resulted in the costs of the service not being fully understood. Although uplifted annually, charges had not been reviewed to ensure they covered costs therefore it was not clear whether the service was making a surplus or loss.

The customer database does not link to other systems, such as finance and stock control, and, as a consequence, some issues were identified with invoicing, debtors, and the availability and accuracy of management information. Trade Waste customers are not issued with contracts or any terms and conditions and as such, often start, change or cease services without notice and at a potential cost to the Council. The review found some sales of trade waste sacks to unregistered traders.

Following the Service review and internal audit, a new Service Plan was developed. An overview of the Service review, the internal audit and progress in implementing the resulting actions was presented to the Audit Committee in March 2019. Internal Audit will continue to track the progress with implementing the agreed actions and will include updates within the 2019-20 Internal Audit Progress Reports.

6. Anti Fraud and Corruption

The Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the Council and damage both its reputation and image. Policies and strategies are in place setting out the Council's approach and commitment to the prevention and detection of fraud or corruption.

The Council employs a Corporate Fraud Officer who is responsible for providing both reactive fraud and irregularity investigations and proactive fraud work. The Council also have access to additional SIAP resources to provide advice, support and supplement the work of the Corporate Fraud Officer if required. The Council's Fraud and Compliance Officer provides a biannual update to the Audit Committee on activities to prevent, detect and investigate suspected fraud and SIAP monitor the outcomes of this work.

7. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within 'the Standards'.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015.

In considering all sources of evidence the external assessment team concluded:

“It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to all of the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).

There are no instances across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.”

In accordance with PSIAS, annual self assessments have been completed since the external inspection concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

8. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm endorsement from the Institute of Internal Auditors that

‘the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’

There are no disclosures of Non-Conformance to report.

9. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2018-19 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- A self-assessment against the Public Sector Internal Audit Standards.

10. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Annual performance indicators			
Aspect of service	Target		2018-19 Actual
Revised plan delivered (to draft report stage)	95%	✓	97 %
Positive customer responses to quality appraisal questionnaire *	95%	✓	99 %
Compliant with the Public Sector Internal Audit Standards	Yes	✓	Yes

*Customer satisfaction has been assessed through response to questionnaires issued to a wide range of stakeholders including Members, senior officers and key contacts.

11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout New Forest District Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Antony Harvey
Deputy Head of Partnership (SIAP)
May 2019