

ANNUAL INTERNAL AUDITOR'S OPINION REPORT 2014/15

1.0 INTRODUCTION:

- 1.1 The purpose of this report is to provide the Internal Auditors' opinion on the adequacy and effectiveness of the control environment and to review the effectiveness of Internal Audit.
- 1.2 This report is produced in compliance with the Public Sector Internal Audit Standards (PSIAS) and the Internal Audit Charter, which requires the Chief Internal Auditor to report annually on the adequacy and effectiveness of the control environment.
- 1.3 The Accounts and Audit (England) Regulations 2011, requires that a "relevant body shall maintain an adequate and effective system of internal audit of their accounting records and control systems". Regulation 6 specifically requires organisation to annually review the effectiveness of Internal Audit.
- 1.4 The key areas of this report are;
 - The Internal Audit Manager's opinion on the adequacy and effectiveness of the Council's control environment. The control environment is defined by the approved Assurance Framework.
 - Any other matters that should be considered for inclusion within the Annual Governance Statement
 - The performance and effectiveness of Internal Audit
 - Conformance against the PSIAS

2. ANNUAL AUDIT OPINION

- 2.1 Management are responsible for maintaining adequate and effective control systems, managing risks and complying with Governance arrangements. Internal Audit reviews risk based systems and processes over a four year period, although in practice the risk based audit plan is reviewed quarterly with changes (due to new or emerging risks) agreed with the Section 151 officer and Audit Committee during the year. Audit cannot review every decision and every transaction within the council therefore the opinion cannot provide absolute assurance.
- 2.2 The opinion concludes on the overall adequacy and effectiveness of the Councils' framework of governance, risk management and control.
- 2.3 Based on the work undertaken by Internal Audit during 2014/15, it is the opinion of the Internal Audit Manager that:
 - Arrangements are in place to ensure there is an adequate and effective control environment
 - Overall systems for managing risks, complying with governance requirements and having good internal control arrangements continue to be effective. Agreed policies and regulations have been complied with in the majority cases.
- 2.4 The outcomes this year have resulted in fewer audits with limited assurance than in previous years with the majority of high priority recommendations completed within agreed deadlines. It is concluded that managers are aware of the importance of maintaining internal controls, managing risk and complying with Governance requirements.

2.5 Arrangements are in place to deter and detect fraud although further improvements must be made. The audit team is currently undertaking a self assessment against a new Counter Fraud Code of Practice published by the Chartered Institute of Public Finance and Accountancy (CIPFA). It is recommended that an action is included within the Annual Governance Statement as the Council is not currently fully compliant with the code. Time has been allocated during 2015/16 to undertake work in this area.

2.6 **Appendix 1** details the results of all completed audits undertaken during 2014/15. The table below summarises the results for 2014/15 and a comparison to 2013/14;

Assurance Level	Number of Audits in 2013/14	Number of Audits in 2014/15
Substantial	1	1
Reasonable	17	17
Limited	6	5
None	None	None
Not Finalised	0	1 (Payroll)
Audits not started	2	0

2.7 Progress to implement high priority recommendations are monitored and any uncompleted recommendations are reported to Audit Committee. As at 2nd June 2015 the following were in progress;

- Payment Card Industry Data Security Standards (PCI DSS) compliance
Action being taken: ICT Security has procured a Qualified Assessor to support the Council in achieving its PCI DSS compliance. The first support day is planned for the 16th June 2015. This area will continue to be supported by Internal Audit.
- Community Grants
Recommendations made included a lack of a procedure manual and evidence held to support approved claims.
Action: This area will be audited during 15/16 to assess progress.
- Building Control
It was recommended that the service reconcile the income recorded on the building control system to the general ledger to ensure all income is accurately posted.
Action: The service is requesting assistance from ICT to provide system reports to help facilitate the process. This area will be audited during 15/16 to verify progress made.
- Asset Management
It was recommended that the service undertake a reconciliation to ensure all expected leases had been charged and that the charges had been raised correctly.
Action: The service is awaiting a system upgrade to help facilitate the process. This area will be audited during 15/16 to verify progress made.

2.8 All other recommendations are completed or substantially completed and no longer pose a high risk to the achievement of objectives.

2.8.1 One audit was not fully completed within the year; payroll. The audit will be completed and the outcome shared with the Audit Committee and External Auditor. Resources which were allocated to this assignment were redirected to support management on higher risk areas, there is no therefore no concerns to report with the testing completed to date.

2.9 Audit outcomes have confirmed that there remains the requirement to update Financial Regulations. It is recommended that this item also be considered for inclusion within the Annual Governance Statement.

- 2.10 Data security and the risk of Cyber threats are regarded by Internal Audit as one of the highest risks that the Council will face in future. During the year the IT Service maintained their PSN (Public Sector Network) accreditation which provided positive assurance to Internal Audit. This third party assurance has been taken into account when forming the annual opinion. Legal services also maintained their Lexcel accreditation. No other third party assurances have been used.
- 2.11 **Appendix 3** details for Committee the work undertaken against the Assurance Framework (wider controls environment).

3 SUMMARY OF AUDIT WORK AND PERFORMANCE

Resources

- 3.1 At the 31st March 2015, 6 FTEs (6.5 FTE as 1.4.13) were employed within the Internal Audit team. The audit plan for 2014/15 included time allowance for the Internal Audit Manager to spend 50% (0.5 FTE) of their time working with partners as well as shared resource of the specialist ICT Auditor (0.5 FTE).
- 3.2 The reduction of time available to the team was due to one member of the team requesting part time hours.
- 3.3 One of the benefits of partnership working is the ability of jointly funding skilled specialist auditors, such IT Auditors and qualified fraud investigators.
- 3.4 The table below provides a summary of the internal audit budget for 2014/15. A modest underspend was achieved;

Title	Actual (£)
Employee salaries, travelling and training costs	225,296
Supplies and Service costs (excludes internal recharges)	1,468
Total costs	226,764
Income earnings	57,118
Cost of the service	169,646

In addition to the internal audit budget above, the team also undertook work on behalf of the external auditor, creating an estimated reduction in fees of £30,000.

- 3.5 The Internal Audit Manager was content that there was adequate resources and skills within the audit team to deliver an effective service for New Forest District Council whilst maintaining a modest salary budget saving and independence.

Audits Outcomes

- 3.6 The work of the Internal Audit section is managed through a risk based assessment of a four year Strategic Plan drawing down an annual Operational (Tactical) Plan for the financial year under review. The annual plan is however reviewed and updated at least quarterly dependant on the identification of new risks.

- 3.7 **Appendix 1** details the opinion provided on each audit with a summary of the number of recommendations made. These results have been shared with the Section 151 Officer, Executive Management Team and Audit Committee throughout the year. It is confirmed that all of the fundamental system audits were completed, although one (Payroll) has yet to finalised with the service.
- 3.8 Recommendations made as a result of the audit review, (graded as high, medium or low priorities in relation to controls or as an opportunity to improve the efficiency or effectiveness of the process) and recorded in action plans which are discussed and agreed with service managers. Internal Audit monitors implementation of recommendations against agreed target dates. Any overdue high priority recommendations are reported to Executive Management Team and Audit Committee as detailed above.

Additional Audit Work

- 3.9 Auditors have also worked with Senior Management (**Appendix 2**);
- to help develop more efficient systems and savings (i.e. banking and cash in transit)
 - on corporate projects to help meet Council objectives. (i.e. Housing and Building Works)
 - in developing improved policies and ways of working (i.e. Contract Projects delivering new Contract and Procurement Strategies, Policies and Procedures)
 - providing extensive advice and consultancy support in relation to compliance with key Council policies
 - as well as additional work to support the Section 151 Officer as required
- 3.10 Internal Audit also undertakes further activities such assessing the risk of fraud in its planning and reviewing and recommending improvement to related fraud policies and undertaking fraud investigations.
- 3.11 The fraud policies were all reviewed and updated during 2013/14 however there is now a requirement to update the ICT Security Policy to contain more detail on Cyber Security Arrangements. An online training package has been rolled out and is available to all officers and Members. Further improvements are planned on the Councils fraud web page to provide alternative ways to report a fraud.
- 3.12 The audit service also undertook work in relation to the completion of the annual Fraud Survey.
- 3.13 There were 3 fraud cases (9 in 2013/14) referred to Internal Audit. (Separate fraud cases in respect of Benefit were referred to and investigated by a dedicated Investigations team until October 2014 at which point officers were transferred to the Department of Work and Pensions (DWP) The single fraud service at the DWP are responsible for investigating these frauds in future).

Working with Partners and Other Inspection Agencies

- 3.14 To avoid the duplication of work and to improve the effectiveness and efficiency of audit, Internal Audit discusses planned work with the external auditor. The team carried out all of the Benefit Subsidy grant work during 2014/15, resulting in improved skills within the team but also a significant saving in external audit fees. This arrangement will continue into 2015/16 with all workbooks being undertaken by Internal Audit.
- 3.15 The internal audit team continues to act 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.

- 3.16 Internal Audit also acted as the Internal Auditor for two Town Councils within the District boundaries during 2014/15. This work is completed for a small fee and will continue into 2015/16.
- 3.17 As referred to in paragraph 3.1 the Internal Audit Manager has successfully provided a Management role to four district councils for an agreed fee under an SLA. Further collaborative work during 14/15 was undertaken with the Borough of Poole (Revenues and Benefits audit for the Stour Valley and Poole Partnership). From 1st July 2015, the Council will no longer provide an internal audit management service to North Dorset District Council (NDDC), as this NDDC is entering into a new tri council partnership.

Summary of All Work Delivered

- 3.18 23 of the 24 audits were undertaken within the year, a completion rate of 96% against a target of 85%.
- 3.19 All partner agreements were completed in full.

Maintaining Performance and Standards

- 3.20 Auditor's performance is maintained through for example; independent management review of each audit, through annual appraisals (in line with Council policy), through ongoing training and through review of sickness records and attendance at joint Internal Audit Groups.
- 3.21 After each audit a post audit questionnaire is issued asking managers to assess different areas of the performance of the audit and rank their scores from 'completely agree/satisfied' (5) to 'totally disagree/dissatisfied' (1). There was a poor response rate, with only eight questionnaires returned. Each questionnaire contains 10 questions. Of the 8 individual responses;

Rating Score	Number Received
4 & 5 (Good and Totally Satisfied)	77
3 (Average)	3
2 (Not satisfied)	None
1 (Poor and Totally Dissatisfied)	None

It is important to improve the return rate to provide the Internal Audit Manager with more feedback on auditor performance.

- 3.22 In undertaking all audit reviews our officers have acted independently, objectively and ethically at all times. Each Auditor has signed up to an additional declaration to confirm they will remain independent. Any potential conflicts of Interest are reported to the Internal Audit Manager.
- 3.23 Through internal self assessment it is considered by the Internal Audit Manager that all the basic standards with the Public Sector Internal Audit Standards have been achieved. There are however areas where the Internal Audit Manager would like to make further improvements and has therefore generated an action plan for improvement as detailed in **Appendix 4**.

4 EFFECTIVENESS OF INTERNAL AUDIT

- 4.1 The Accounts and Audit (England) Regulations 2011 require organisations to annually review the effectiveness of Internal Audit. In order to determine the effectiveness of Internal Audit, Members need to consider the contents of this Auditor's Annual Report.

5. ACKNOWLEDGEMENT

5.1 The Auditors would like to thank all the staff involved for the help and co-operation that they have given during the course of the audit reviews.

6.0 FINANCIAL IMPLICATIONS:

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

7.0 EQUALITY & DIVERSITY AND ENVIRONMENTAL MATTERS:

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

8.0 CRIME & DISORDER IMPLICATIONS:

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

9.0 RECOMMENDATIONS:

9.1 To consider the annual report and opinion and the level of assurance it can give over the adequacy of Council's internal control, risk management and governance systems.

9.2 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 2014/15 (Audit Committee March 2014)