

Annual Internal Audit Report & Opinion

2019 - 20

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 provides 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 Deputy Head of the Southern Internal Audit Partnership 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), as the Council's Chief Internal Auditor, 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 the Council's audit need that has been covered within the period.

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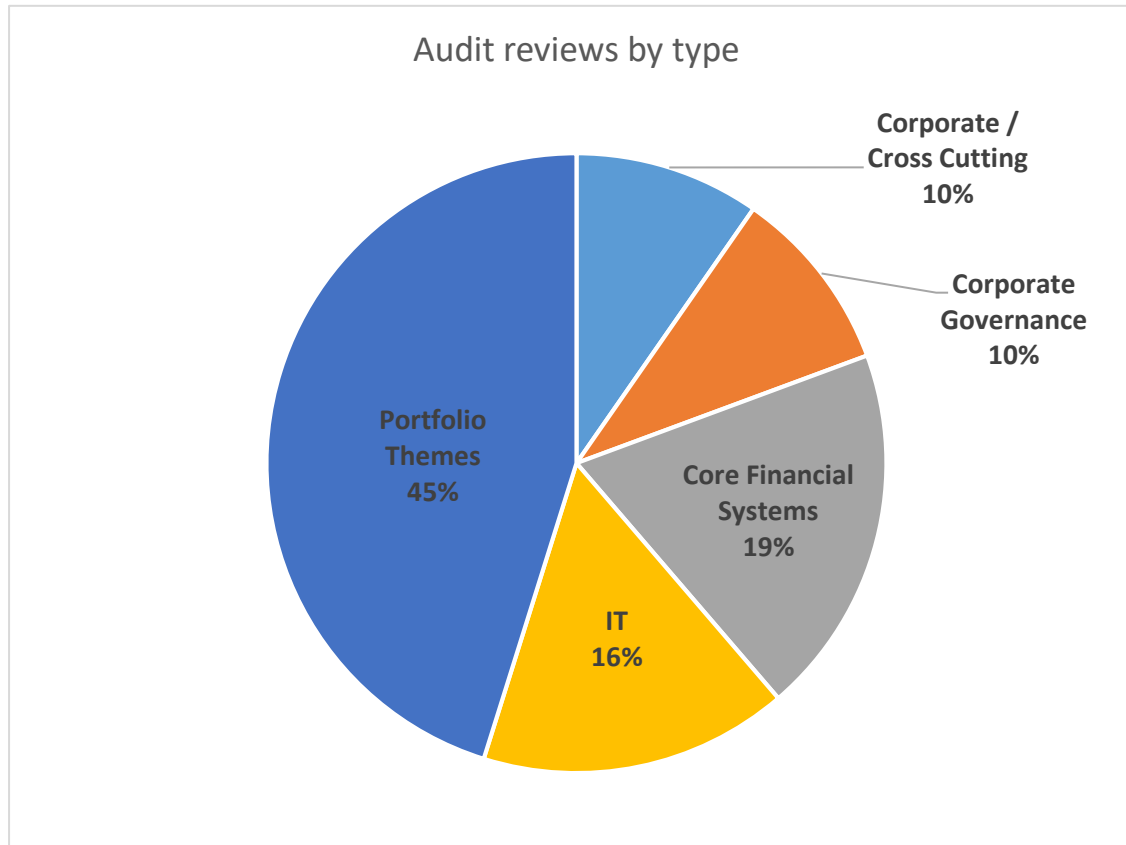
"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of New Forest District Council's internal control environment.

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 so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

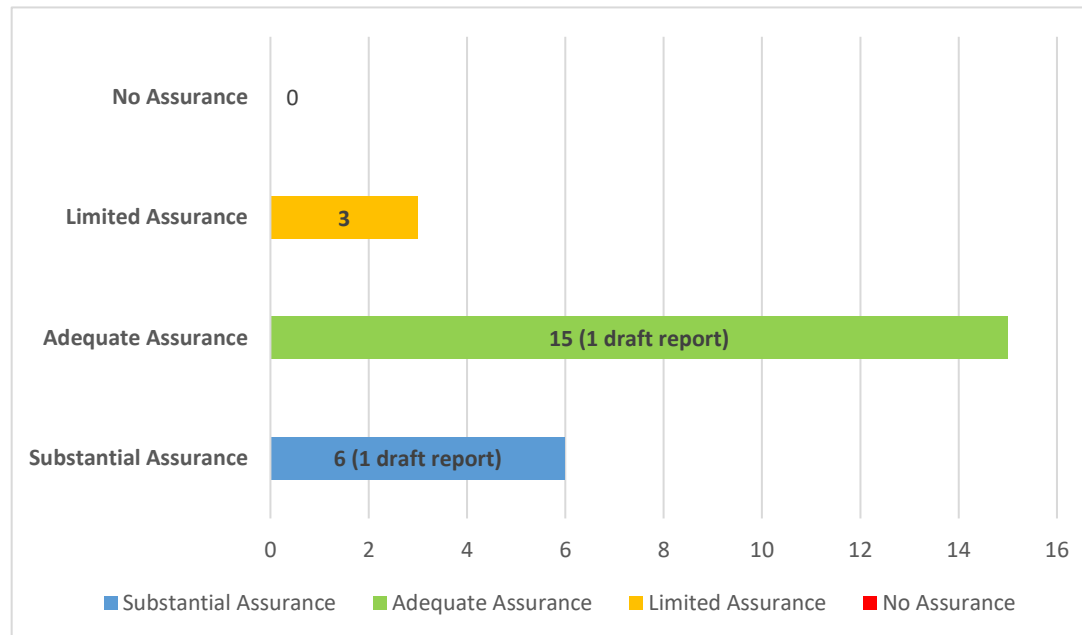
The 2019-20 Internal audit plan, approved by the Audit Committee in March 2019, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion internal audit have undertaken 31* reviews during the year ending 31 March 2020.

The revised 2019-20 internal audit plan has been delivered with the following exception:

- Due to COVID-19 and subsequent closure of the Leisure Centres, it was not possible to complete the Leisure Centres – Income Collection audit. This review will be carried forward to 2020-21.



Substantial – There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be of a high standard and few or no material errors or weaknesses were found;

Adequate - While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;

Limited - Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk; or

No - Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

*7 reviews did not culminate in an audit opinion as they provided either an advisory role, a follow-up of a 18-19 'Limited Assurance' review or provided a position statement.

A list of the 2019-20 assurance reviews undertaken and their respective opinions is provided in Annex 1.

5. Key Observations

Due to the timely delivery of the internal audit plan, we are pleased to report that despite the significant impact and subsequent challenges posed by the coronavirus pandemic both to the way we work and the delivery of Council services, this has not inhibited our ability to provide an opinion on the Council's framework of risk, governance and control for 2019-20.

Internal Audit work found there to be a generally sound control environment in place across the majority of review areas during the year, which were found to be working effectively to support the delivery of corporate priorities, however three reviews concluded with 'Limited Assurance' Opinions as summarised below. No audits concluded with a 'No Assurance' opinion.

Housing Asset Management – Lift Inspection and Maintenance (Finalised July 19 and included within the September 2019 Progress Report). All lifts installed prior to 2009 are the responsibility of the Council with anything after this date the responsibility of the tenant. The Facilities Management (FM) Team maintained a list of all lifts requiring inspection, which comprised of approximately 40 appliances inspected under contract with Zurich, with the FM Team retaining responsibility for managing inspections and any subsequent follow-up actions.

Following staff changes and in preparation for the retendering of the lift inspection contract, inconsistencies were identified between data sources therefore a reconciliation of the various housing databases holding information on lifts located within Council Housing was completed by the Maintenance Strategy and Compliance Officer. This reconciliation was also compared to the FM Team routine maintenance and inspection schedule and Zurich Records which identified that approximately 100 additional domestic lifts were retained within the Council housing stock that were not part of the inspection schedule. At the time of the audit, the reconciliation and cleansing of database records had not been fully completed and the newly identified lifts had not been inspected.

The audit also found that the lifts covered by the inspection contract with Zurich were not consistently inspected within the required review periods although once completed, lift inspection detail was received promptly from Zurich, which ensured the Council received timely notification of issues for resolution. At the time of the review, there were no formal meetings undertaken between the Council and the contractor for lift inspections therefore ongoing review of the contract was limited.

Fleet Management (Finalised May 20). The audit was requested by the Service Manager, Waste & Transport as there were concerns as to whether TRANMAN (fleet management software) was being fully utilised for recording and monitoring all the costs associated with each vehicle. Internal Audit reviewed the process for capturing all the costs associated with vehicles, including servicing, maintenance, labour, parts and fuel. The review found that all costs are not being accurately attributed directly to individual vehicles, including excessive wear and tear, parts and disposal of waste oil. There are no records supporting stock held or issued, receipts are not recorded, and the value of stock held is not known. The current cost of consumables charged to vehicles as part of the servicing costs is an historic charge and may not cover actual costs. The current method of calculating recharge costs is based on total costs divided by the total number of productive working hours, which does not allow for different types/ages of vehicles. Whilst the total number of vehicles has been reconciled to the TRANMAN system, vehicle makes and models were incorrectly recorded. Expected service / inspection times are not recorded in TRANMAN, so resources cannot be effectively planned and under / overcapacity recognised. 'O' Licence vehicles are currently inspected every 4.5 weeks, in excess of the 6 weekly inspections required by VOSA.

The Annual Service Plans outline Fleet Management responsibility, service aims, background, external influences, expenditure, key challenges and opportunities; and Service Level Agreements (SLAs) between Fleet and departments provide service specifications. Procedure notes, however, do not cover all areas of activity operating within the vehicle workshop, although they are currently being introduced. There is guidance for staff permitting them to work on their own vehicles although this has not been published / communicated effectively and is currently in the process of being reviewed. Currently only corporate induction is undertaken by new starters as there is no specific fleet/workshop induction. There are no instructions issued to users of fuel cards on limitations of use and there is no monitoring to ensure usage is compliant with instructions / policy.

IT Asset Management/Software Licencing (Finalised May 20). Roles and responsibilities in terms of the request, issue and disposal of equipment is assigned appropriately with adequate segregation of duties. The IT disposal process is clear, and a third-party contractor is used to dispose of IT equipment. Certificates of disposal are provided and retained. However, the IT Asset Register was found to be out of date both for current equipment and that which has been disposed of. The IT Lifecycle policy, a key guidance document, is not current, and in some areas can lead to inconsistent practice, for example, how to conduct internal IT Asset audit reviews.

The process to identify license requests for new software is documented and executed appropriately, and licensing is effectively reviewed through a third-party on a bi-annual basis. Unused licenses are recovered when IT Hardware is handed back to the IT department however IT are not consistently advised of new starters on a timely basis, and the section were not advised of two leavers until after the members of staff had left.

6. 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.

7. 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.

8. 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 2019-20 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.

9. Internal Audit Performance

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

Performance Indicator	Target	2018-19 Actual	2019-20 Actual
Percentage of the revised internal audit plan delivered	95%	97%	100%
Positive customer survey response – all SIAP Partners	90%	99%	98%
Public Sector Internal Audit Standards	Compliant	Compliant	Compliant

Customer satisfaction has been assessed through response to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process throughout the year.

10. Acknowledgement

I would like to take this opportunity to thank all those staff throughout the 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 the Southern Internal Audit Partnership
June 2020

Annex 1

2019-20 Audit Reviews and Opinions

Substantial Assurance	Adequate Assurance	Limited Assurance	No Assurance
<ul style="list-style-type: none"> 1. Asset Management (Appletree Property Holdings) 2. Accounts Payable 3. Payroll 4. Grants Awarded 5. Licencing (draft final) 6. Financial Stability 	<ul style="list-style-type: none"> 1. Information Governance 2. HR – Absence Management 3. Health & Safety 4. Accounts Receivable / Debt Management 5. Main Accounting 6. P-Card Taxation (VAT) 7. Service Desk and Incident Management 8. Housing Asset Management - Planned Maintenance (draft final) 9. Housing Finance - Right-to-Buy 10. Environmental and Regulation – Food & Safety and Environmental Protection 11. Planning (incl. Community Infrastructure Levy) 12. Parking & Enforcement 13. Land Charges 14. Community Safety – CCTV & Out of Hours 15. Lease Income 	<ul style="list-style-type: none"> 1. Software licensing / Management of assets 2. Fleet Management 3. Housing Asset Management – Lift Inspection and Maintenance 	None