

Annual Internal Audit Report & Opinion

2020-21

New Forest District Council



Southern Internal Audit Partnership

Assurance through excellence
and innovation

Contents

Section	Page
1. Role of Internal Audit	3
2. Internal Audit Approach	4
3. Internal Audit Opinion	5
4. Internal Audit Coverage and Output	6-7
5. Key Observations	8-9
6. Quality Assurance and Improvement	10
7. Disclosure of Non-Conformance	11
8. Quality control	11
9. Internal Audit Performance	12
10. Acknowledgement	12
Annex 1 – 2020-21 Audit Reviews and Opinions	13

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.

The impact of COVID-19 during the year has had a significant impact on the way we have worked and interacted. The enforced central government directive *'if you can work from home, you must do so'* has required the Southern Internal Audit Partnership to adopt a revised operating model and innovative approach to virtual auditing.

Work contributing to my 2020-21 annual opinion has all been undertaken virtually, optimising technology and virtual platforms to share, monitor and observe operations to substantiate our findings.

I am confident that the revised operating model has not compromised quality or SIAP's ability to complete assurance work throughout the year or the conclusion drawn. I would wish to extend my appreciation to Council officers with whom we have worked during the year for their support, cooperation, and seamless transition to the virtual audit approach without which the delivery of an annual opinion would not have been possible.



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.

Annual Internal Audit Opinion 2020-21

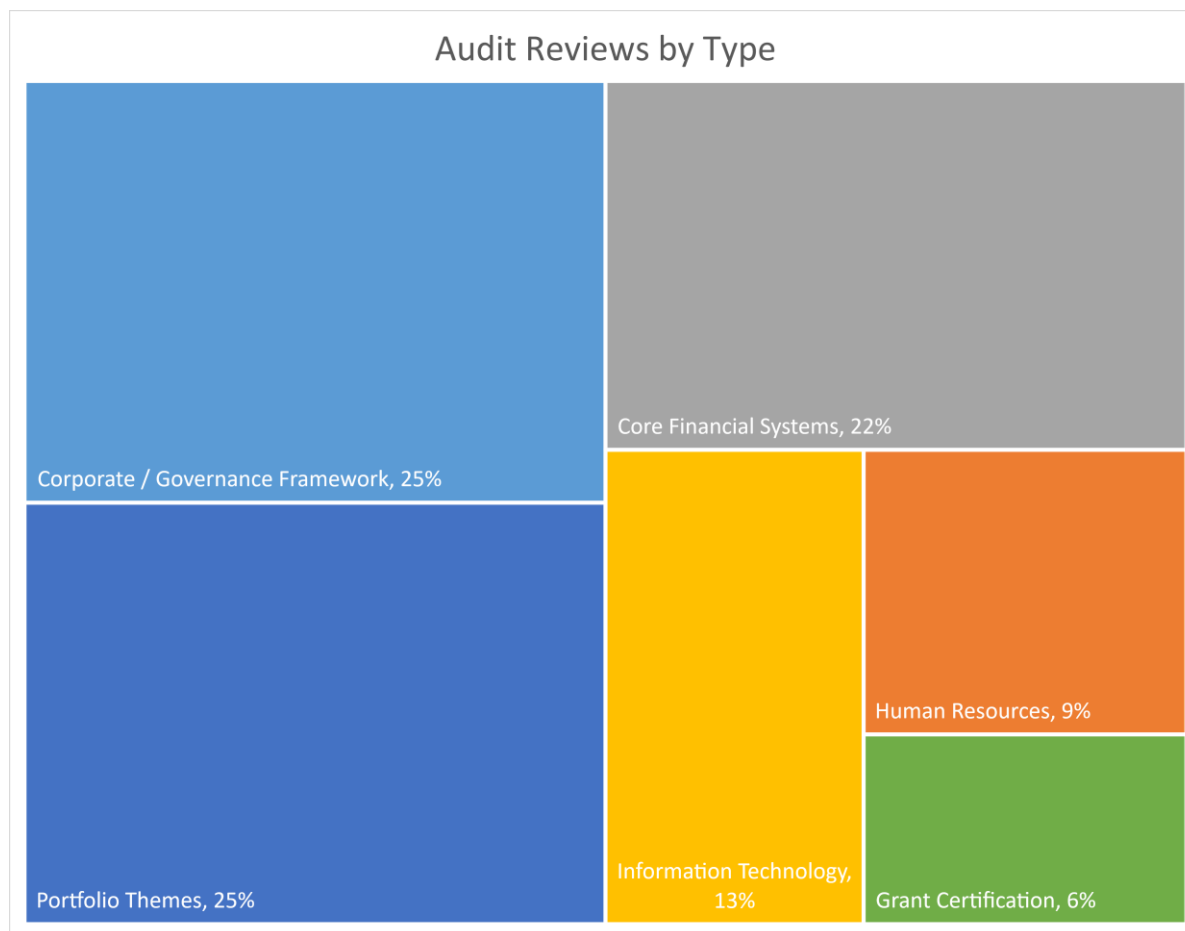
"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of New Forest District Council's internal control environment.

In my opinion, New Forest District Council's framework of governance, risk management and control is 'Reasonable' 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 2020-21 Internal audit plan was informed by internal audit’s own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

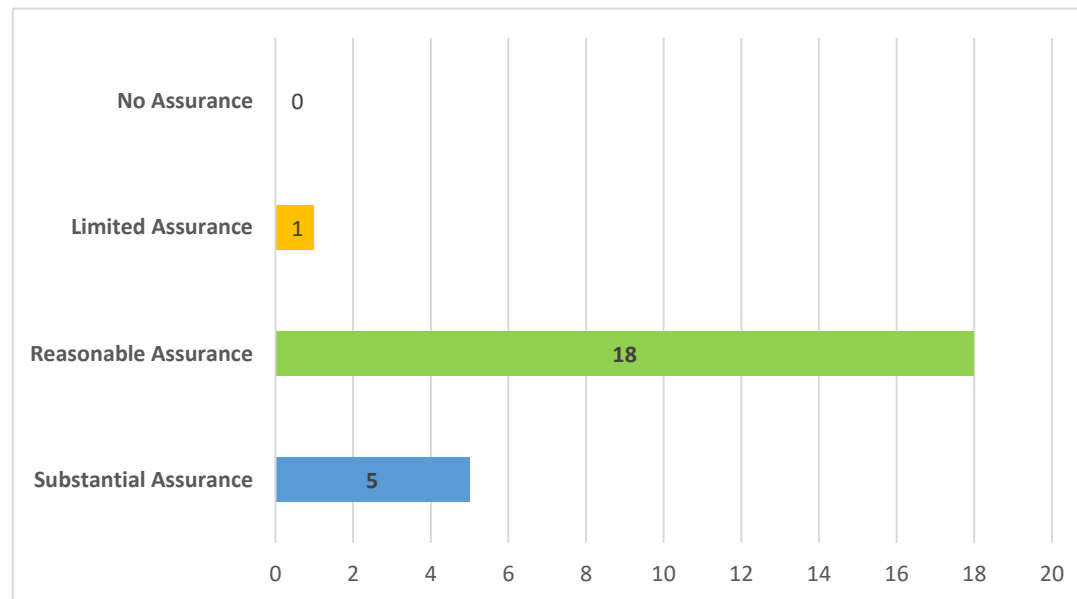
The scale of COVID-19 coupled with the speed of its impact and the wide-ranging challenges presented has necessitated new and different ways of working across the Council. Such challenges and subsequent resolutions bring with them new and emerging risks that management need to consider, manage, and mitigate. The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion internal audit have undertaken 32* reviews during the year ending 31 March 2021.

Due to the significant impact and subsequent challenges posed by the COVID-19 pandemic, there has been an inevitable impact on the delivery of the revised 2020-21 internal audit plan. Work is in progress for the Housing Rents review however the audit has not progressed sufficiently in order to form an opinion and issue a draft report.

Work is substantially complete, and an opinion has been formed for a further three reviews, although final reports have not yet been agreed. I do not expect the outcomes of these reviews to change or to adversely impact my annual opinion.

The opinion assigned to each internal audit review (including draft reports) is summarised below and a list of the 2020-21 assurance reviews undertaken and their respective opinions is provided in Annex 1:



Substantial –A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

*7 reviews did not culminate in an audit opinion as they relate to two COVID-19 related Grant Certifications; providing an advisory role to three service areas; the provision of Fraud Training relating to the use of Procurement cards; and the follow-up of previous audit findings and agreed actions in relation to Fleet Management).

5. Key Observations

The Council's main financial system, Business World, was implemented in April 2020 as a replacement to the legacy Agresso system. To account for the change to Business World, all financial reviews were intentionally scheduled to be completed during quarters three and four of 2020-21. The scheduling provided the opportunity for the new systems and processes to become embedded and provide a more complete view of activity within the year after such a significant change. Despite the inevitable challenges and drain of Officers' time presented by the change in fundamental systems, together with reacting to COVID-19 and adopting to new ways of working, we are pleased to report that controls were generally sound. Whilst there are some opportunities to improve controls as a result of the system changes and additional pressures faced during 2020-21, there were no significant issues identified arising from the work completed during 2020-21.

We are also pleased to report that 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. No reviews concluded with a 'No Assurance' opinion although one review has concluded with a 'Limited Assurance' opinion as summarised below:

Payroll Increments

Following the successful implementation of a new payroll system, iTrent, towards the end of 2018-19, and in response to a management request, we undertook a detailed review of the 2020 payroll increment process in February 2021 to identify potential weaknesses and areas for improvement in advance of applying increments in 2021.

Employee contracts clarify that pay progression is reviewed each year, is based on performance, and confirm that incremental progression is not guaranteed. The review of the 2020 payroll increments found that whilst that vast majority of increments were appropriately applied (where applicable) in a timely manner, and any errors were rectified promptly once identified, to a certain extent the processes were reliant on both the Management and Payroll Team's understanding of the actions required.

There is no formal, documented process for the Management Team to utilise covering the process to advise Payroll of incremental pay awards or the timeframes the annual process usually follows. There are three differing processes for confirming if increments apply, depending upon the seniority of the staff members. Whilst an e-mail was sent to EMT and Service Managers outlining requirements and timeframes, the 2020 communication was not sufficiently comprehensive, did not cover all three of the differing processes and was not initially cascaded to all relevant staff. Whilst the Payroll Managers have process documentation detailing how to run the bulk update process for Spinal Column

Points (SCP) increments within iTrent, there is no documentation detailing the entire increment process, including the sequential order of required actions, who within Payroll is assigned responsibility for actioning, or when action is required by.

For the 2020 increments, the processes lacked structure when collating management responses, double-checking interpretations, and confirming that they have been actioned. No reconciliations were carried out to ensure that the spreadsheet covered the expected number of posts nor was the final SCP position within iTrent for all staff cross-referenced back to the actions identified in the spreadsheet.

The Payroll Team have confirmed that, where possible, all mitigating actions to address the issues identified in the 2020 increment process were implemented for 2021 (11 out of 13 actions) and the Team intend to document processes and produce guidance by the end of October 2021, well in advance of the 2022 process.

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 2020.

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

‘The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles. We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.’

7. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments], I can confirm through 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 2020-21 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
- An independent external quality assessment against the IPPF, PSIAS & LGAN.

9. Internal Audit Performance

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

Performance Indicator	Target	2020-21 Actual
Percentage of revised internal audit plan delivered (to draft report stage)	95%	97%
Positive customer survey response – all SIAP Partners	90%	98%
Public Sector Internal Audit Standards	Compliant	Compliant

Customer satisfaction was collated for SIAPs EQA and is an assessment of responses to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process (survey date May 2020).

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 2021

Annex 1

2020-21 Audit Reviews and Opinions

Substantial Assurance	Reasonable Assurance	Limited Assurance	No Assurance
<ol style="list-style-type: none"> 1. Fraud Governance 2. Council Tax 3. Business Grants (COVID) 4. HMO Licensing 5. Gas Inspections 	<ol style="list-style-type: none"> 1. Information Governance – FOI & SAR 2. Procurement 3. Contract Management 4. Health & Safety (COVID-19) 5. Governance – Decision Making (COVID) 6. Recruitment 7. Travel, Expenses and Overtime 8. NNDR 9. Accounts Payable 10. Accounts Receivable and Debt Management 11. Income Collection and Banking 12. Main Accounting and Reconciliations 13. Northgate Application (ICT review) 14. Cyber Security (draft report) 15. Housing Finance Management (Tenancies) 16. Disabled facilities Grants 17. Housing Asset Management – Supply Chain Arrangements (draft report) 18. Coastal Management and Protection (draft report) 	<ol style="list-style-type: none"> 1. Payroll Increments 	None