

## **ANNUAL INTERNAL AUDITOR'S OPINION REPORT 2015/16**

### **1.0 INTRODUCTION**

- 1.1 The purpose of this report is to provide the Internal Auditor's 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 2015, requires that a "relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes." Regulation 6 specifically requires the organisation to annually review the effectiveness of the system of internal control.
- 1.4 The key areas of this report are:
- The Principal Auditor'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

### **2.0 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 Council's framework of governance, risk management and control.
- 2.3 Based on the work undertaken by Internal Audit during 2015/16, 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 one audit giving limited assurance compared to five in the previous year 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 are to be made. Therefore audit will be 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 2016/17 to undertake work in this area.
- 2.6 **Appendix 1** details the results of all completed audits undertaken during 2015/16. The table below summarises the results for 2015/16 and a comparison to 2014/15;

Assurance Level	Number of Audits in 2014/15	Number of Audits in 2015/16
Substantial	1	0
Reasonable	17	19
Limited	5	1
None	None	None
Not Finalised	1	1
Audits not started	0	0

- 2.7 **Appendix 2** details all high priority recommendations that have resulted from Audits undertaken during 2015/16.
- 2.8 Progress to implement high priority recommendations is monitored and any uncompleted recommendations are reported to Audit Committee. As at 3rd June 2016 the following were in progress:
- Payment Card Industry Data Security Standards (PCI DSS) compliance  
A report will be taken to Executive Management Team in June and will be presented to Audit Committee in September.
  - Asset Management  
It was recommended that the service (Estates and Valuations) undertake a reconciliation to ensure all expected leases had been charged and that the charges had been raised correctly.  
Action: This recommendation was reported as outstanding in last year's annual report and the service was awaiting the implementation of a case management system. This recommendation has been represented in this year's Asset Management report with a deadline for completion of 31st July 2016. Work is progressing on automating systems to ensure that the charges are raised at the correct time.
  - Business Continuity  
To ensure that all business units, that are deemed to have Critical Activities, have up to date Business Continuity Plans  
To ensure Disaster Recovery Plans are created for each Critical System

High level of responsibility needs to be taken for creating and implementing business continuity plans and ensuring they are kept up to date  
The Service Manager (Compliance and Coastal) now responsible for Business Continuity has recently been informed of these recommendations that remain outstanding.

- 2.9 Internal Audit will review these recommendations again prior to reporting to Audit Committee in September with an update.
- 2.10 All other recommendations are completed or substantially completed and no longer pose a high risk to the achievement of objectives.
- 2.11 One Audit has not yet been finalised, Rent Accounting, it is anticipated that this audit will be given reasonable assurance.
- 2.12 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.
- 2.13 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 independent Lexcel accreditation. No other third party assurances have been used.
- 2.14 **Appendix 3** details for Committee the work undertaken against the Assurance Framework (wider controls environment).

### **3.0 SUMMARY OF AUDIT WORK AND PERFORMANCE**

#### **Resources**

- 3.1 The number of Management days provided by NFDC to the other Authorities has been reduced and each Authority now has a Senior Auditor that will take on more management responsibility. Previously NFDC had a Service level Agreement (SLA) with Christchurch and East Dorset Partnership which included the provision of Audit Management days to Purbeck District Council. Under the new arrangements NFDC now has a direct SLA with Purbeck District Council.
- 3.2 The provision within the 2 SLA's is:

Audit Management	38 days
NFDC Senior Auditor	20 days
NFDC Auditor	30 days
- 3.3 Further NFDC Auditor days are provided across the partnership, these days are calculated when the Audit Plan for the forthcoming year is developed. These days are charged separately to the SLA.

3.4 The table below provides a summary of the internal audit budget for 2015/16.

<b>Title</b>	<b>Actual (£)</b>
Employee Costs	209,628
Supplies and Service costs (excludes internal recharges)	1,363
Total costs	210,991
Income earnings	62,288
Cost of the service	148,703

In addition to the internal audit budget above, the team also undertook work on behalf of the external auditor, reducing their fees.

3.5 The Principal Auditor was content that there was adequate resources and skills within the audit team to deliver an effective service for New Forest District Council.

### **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 two have yet to be finalised (Accounts Receivable and Landlord Services) 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 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:

- to help develop more efficient systems and savings (i.e. banking, procurement cards)
- on corporate projects to help meet Council objectives. (i.e. Affordable Housing)
- in developing improved policies and ways of working (i.e. Procurement 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 as assessing the risk of fraud in its planning and reviewing and recommending improvement to related fraud policies and undertaking fraud investigations.
- 3.11 The audit service also undertook work in relation to the completion of the annual Fraud Survey.
- 3.12 There were 5 fraud cases (3 in 2014/15) investigated by Internal Audit (2 as a result of NFI).

### **Working with Partners and Other Inspection Agencies**

- 3.13 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 2015/16, resulting in improved skills within the team but also a significant saving in external audit fees. This arrangement will continue into 2016/17 with all workbooks being undertaken by Internal Audit.
- 3.14 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.
- 3.15 Internal Audit also acted as the Internal Auditor for two Town Councils within the District boundaries during 2015/16. This work is completed for a small fee and will continue into 2016/17.

### **Summary of All Work Delivered**

- 3.16 21 of the 22 audits were undertaken within the year, a completion rate of 95% against a target of 85%.
- 3.17 All partner agreements were completed in full.

### **Maintaining Performance and Standards**

- 3.18 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.
- 3.19 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) Only four questionnaires were returned. Each questionnaire contains 11 questions. Of the 4 individual responses:

<b>Rating Score</b>	<b>Number Received</b>
4 & 5 (Good and Totally Satisfied)	40
3 (Average)	2
2 (Not satisfied)	None
1 (Poor and Totally Dissatisfied)	None
0 Unable to comment	2 (Service Manager was not responsible for the area of audit at time of commencement)

It is important to improve the return rate to provide the Principal Auditor with more feedback on auditor performance.

- 3.20 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 Principal Auditor.

#### **4.0 EFFECTIVENESS OF INTERNAL AUDIT**

- 4.1 The Accounts and Audit (England) Regulations 2015, requires that a “relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes.” Regulation 6 specifically requires the organisation to annually review the effectiveness of the system of internal control. In order to determine the effectiveness of Internal Audit, Members need to consider the contents of this Auditor’s Annual Report.

#### **5.0 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 That the Committee confirms that it is satisfied with the effectiveness of the system of internal control in line with Regulation 6 of the Accounts and Audit Regulations 2015

For Further Information Contact:

Glenda Chambers – Principal Auditor  
Tel: 02380 285588  
Email: [glenda.chambers@nfdc.gov.uk](mailto:glenda.chambers@nfdc.gov.uk)

Background Papers:

Audit Plan 2015/16 (Audit Committee March 2015)