

**EXECUTIVE MANAGEMENT TEAM – 12 JUNE 2017**  
**AUDIT COMMITTEE – 23 JUNE 2017**

**ANNUAL INTERNAL AUDITOR'S OPINION REPORT 2016/17**

**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 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 Auditors 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. 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 2016/17, it is the opinion of the Principal Auditor 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 only one audit giving limited assurance 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. The Corporate Fraud Officer has undertaken a self-assessment against a new Counter Fraud Code of Practice published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Council is not currently fully compliant with the code. The key areas that have been identified are to implement a Counter Fraud Strategy and to also update the Fraud related policies. These reports will be presented to Audit Committee for approval.

2.6 **Appendix 1** details the results of all completed audits undertaken during 2016/17. The table below summarises the results for 2016/17 and a comparison to 2015/16:

<b>Assurance Level</b>	<b>Number of Audits in 2015/16</b>	<b>Number of Audits in 2016/17</b>
Substantial	0	1
Reasonable	19	12
Limited	1	1
None	None	None
Not Finalised	1	7
Audits not started	0	0

2.7 **Appendix 2** details all high priority recommendations that have resulted from Audits undertaken during 2016/17.

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  
 Action: Agresso have recently released an upgrade for Income Manager which will comply with the requirements of PCI DSS. A report was brought to EMT in November 2016 from the ICT Service Manager confirming that an upgrade plan and details of all associated costs will be in place by the end of May 2017. The latest position is that the upgrade will take place in February/March next year and at this point in time the costs are unknown. New guidance documents on scoping and segmentation specifically around voice-over-IP installations (telephone systems) are due to be released mid-2017 and it could result in significant changes to compliance requirements. It has been decided to wait until the new guidance is issued before any further action with regard to telephone payments is taken. As at the end of May 2017 the new guidance has not been released.
  
- 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  
 Action: The Service Manager for Business Improvement and Customer Services became responsible for this area in December and following training these points will be addressed. An audit of Business Continuity will take place during 2017/18.

- 2.9 Internal Audit will review these recommendations (para 2.8) 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 Seven audits have yet to be finalised; 4 are at draft report stage and 3 are work in progress, it is anticipated that these audits 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.

### 3 SUMMARY OF AUDIT WORK AND PERFORMANCE

#### Resources

- 3.1 The NFDC Internal Audit team provides the following resources to Christchurch Borough, East Dorset District and Purbeck District Councils:
  - 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 2016/17. This also includes the Employee costs for the Information Assurance Officer and Corporate Fraud Officer.

<b>Title</b>	<b>Actual (£)</b>
Employee Costs	235,600
Operational costs (excludes internal recharges)	5,600
<b>Total costs</b>	<b>241,200</b>
Income earnings	(59,900)
<b>Net Cost of the service</b>	<b>181,300</b>

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

## **Audits Outcomes**

- 3.5 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.
- 3.6 **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.
- 3.7 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**

- 3.8 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
  - to support the Section 151 Officer as required
  - providing independent verification of the actions taken following a significant data breach to minimise the reputational risk to the Council
  - to resolve queries with regard to procedure requirements and authorisation levels following the Management restructure
  - to verify the calculation of the NNDR3 grant claim
  - to assist with the review of the write off policy
- 3.8 In addition to the planned work Audit have experienced a significant increase of ad-hoc queries. There has been a range in the subject of queries received, but a high proportion have been with regard to procedural requirements and authorisation levels. This has impacted on the timely completion of the Audit Plan.
- 3.9 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.
- 3.10 There were 30 referrals of fraud during 2016/17 (5 in 2015/16). Investigations have been undertaken on 21 of these referrals with 9 needing no further action. 17 cases have been closed resulting in a Right to Buy application being withdrawn, a Right to Buy application refused, allocation of a 4 bedroom property not completed, backdated Business Rates of £1,852 and a weekly saving in HB/CTRS/CTax of £120.85. 4 cases are still under investigation.

### **Working with Partners**

- 3.11 The team carried out all of the Benefit Subsidy grant work during 2016/17, resulting in a significant saving in external audit fees. This arrangement will continue into 2017/18 with all workbooks being undertaken by Internal Audit.
- 3.12 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.
- 3.13 Internal Audit also acted as the Internal Auditor for two Town Councils within the District boundaries during 2016/17. This work is completed for a small fee and has continued into 2017/18.

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

- 3.14 22 of the 26 audits were undertaken within the year (4 to be finalised), a completion rate of 85% against a target of 85%. 3 audits are work in progress. The remaining 2 audits will continue as part of the 2017/18 audit plan to align to planned Service Reviews.
- 3.15 All partner agreements were completed in full.

### **Maintaining Performance and Standards**

- 3.16 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.
- 3.17 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 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. 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 implications arising directly from this report, although a robust internal audit function helps to protect the Council from financial losses.

## **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:*

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### *Background Papers:*

Audit Plan 2016/17 (Audit Committee March 2016)