

## NFNPA/RAPC 292/16

### NEW FOREST NATIONAL PARK AUTHORITY

### RESOURCES, AUDIT AND PERFORMANCE COMMITTEE – 6 JUNE 2016

### ANNUAL INTERNAL AUDIT PERFORMANCE AND OPINION REPORT – 2015/16

**Report by:** Glenda Chambers, Principal Auditor, New Forest District Council

#### **1 Purpose**

- 1.1 To provide an opinion on the control environment and to review the effectiveness of Internal Audit.

#### **2 Background**

- 2.1 This annual report is produced in compliance with the Public Sector Internal Audit Standards (PSIAS), which requires the Chief Internal Auditor to report annually on the adequacy and effectiveness of the internal control environment.
- 2.2 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.
- 2.3 The key areas of this report are;
- the Principal Auditors Annual Audit Opinion
  - any other matters that should be considered for inclusion within the Annual Governance Statement.
  - the performance of Internal Audit

#### **3. Statement on the Internal Control Environment – Audit Opinion**

- 3.1 Management are responsible for maintaining adequate and effective control systems. Internal Audit reviews these risk based systems over a four year period. The Auditors’ opinion cannot, therefore provide absolute assurance that the internal control environment is operating adequately and effectively.
- 3.2 Based on the work undertaken by Internal Audit during 2015/16, it is the opinion of the Principal Auditor that:
- arrangements are in place to ensure there is an adequate and effective internal control environment.
  - the systems and internal control arrangements are effective and agreed policies and regulations are complied with in the majority of occasions.

- Where minor control weaknesses were identified during the year, management have agreed to take action. Internal Audit monitors progress made against these recommendations and is content that management are implementing the required actions to further strengthen controls.
  - managers are therefore aware of the importance of maintaining internal controls and accept recommendations made by Internal Audit to improve controls.
- 3.3 As demonstrated by the audit results in Annex 1, all audit reviews resulted in reports where the auditor was able to provide an opinion of “Reasonable” or “Substantial” assurance. A definition of the assurance opinion were agreed by RAPC and are detailed within the Internal Audit Charter and appended to this report for information. A summary of the recommendations made for each audit has also been included with Annex 1 as requested by the Committee.
- 3.4 As a result of our internal audit work, there are no areas that are being reported as *significant* and requires inclusion within the Annual Governance Statement.
- 3.5 There is one key area however that requires further work and that relates to Counter Fraud. The Authority is assessed as low risk, however the Chartered Institute of Public Finance & Accountancy (CIPFA) published a new code of practice for counter fraud. Whilst the code is not mandatory there are a number of best practice measures that should be adopted to reduce the risk of fraud and to improve prevention and detection. CIPFA have created a self-assessment toolkit to enable authorities to undertake detailed reviews of their counter fraud arrangements. It is therefore recommended that this work is undertaken in consultation with the Authority during 16/17.
- 3.6 As reported in last year’s report, during 2014/15, CIPFA worked with the International Federation of Accountants (IFAC) to prepare a new International Framework for Good Governance in the Public Sector. This framework is not mandatory although it does provide best practice and new guidance. It was expected that CIPFA and the Society of Local Authority Chief Executive (SOLACE) would publish a new framework during 15/16. The 2016 edition of the Good Governance Framework was published in April 2016. Internal Audit will be reviewing this edition during 16/17 and will be able to provide support if required in developing and promoting an updated good governance framework.
- 3.7 No external assurance opinions were relied upon in giving this opinion.

#### **4 Summary of Internal Audit Work and Performance**

- 4.1 The Internal Audit function is delivered by New Forest District Council through a Service Level Agreement.
- 4.2 The approved risk based internal audit plan for 2015/16 is recorded within Annex 1. The assurance level and number of recommendations against each audit is also provided.

- 4.3 All final audit reports are copied to the Chief Finance Officer and the Chief Executive Officer as well as relevant service officers and those who are responsible for any remedial actions.
- 4.4 All audit recommendations made have been agreed by management, implementation of recommendations are monitored against their target dates. There are no concerns to report to Committee at this time.
- 4.5 There were no fraud investigations conducted by Internal Audit during the 2015/16 financial year.
- 4.6 Performance against the set indicators (as approved by Resources, Audit and Performance Committee) are;

<b>Performance Activity</b>	<b>Target</b>	<b>Result /Comment</b>
Delivery of Audit Plan	95% of annual plan completed	88%
% of Draft Reports issued within 10 days of completion of audit testing	100%	100%
% of Final Reports issued within 25 days of completion of audit testing	100%	86%
Report and findings to be raised and discussed with all relevant Officers	100%	100%
% of High priority recommendations are followed up	100%	100%
% of Medium priority recommendations are followed up	100%	100%
% of Low priority recommendations are followed up (on the next review)	100%	100%
End of audit performance review (evaluation score of 4 and above)	80%	100% (for those received)

- 4.7 The Audit plan for 15/16 has not been fully completed. The Affordable Housing Audit did not result in a report and the 2 days allocated were not used. Some work was undertaken in the context of reviewing the Management Reports however no level of assurance has been provided. Time has been allocated in the 16/17 plan to complete an audit in this area. It has been agreed that the 2 days will now be spent undertaking a review of compliance with the Chartered Institute of Public Finance & Accountancy (CIPFA) code of practice for counter fraud.
- 4.8 There was a slight delay in issuing the final ICT Control Report at the request of the Corporate Service Manager to enable time to consider the responses to include in the action plan.

## **5 Maintaining Performance and Standards**

- 5.1 Internal Auditor's performance is maintained through for example; independent management review of each audit, through annual appraisals (in line with Council policy) and ongoing training and development.

- 5.2 In undertaking all audit reviews our officers have acted independently, objectively and ethically at all times.
- 5.3 Through internal self assessment, it is considered by the Principal Auditor that standards as laid down in the PSIAS have broadly been met, although opportunities for continuous improvement have been identified.

## **6 Effectiveness of Internal Audit**

- 6.1 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.

## **7 Acknowledgement**

- 7.1 The Internal 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.

## **8. Equality Impact Assessment**

- 8.1 There are no Equality and Diversity issues arising from this report.

## **9. Recommendation**

**It is recommended that Members:**

- 1) note the Auditor’s Annual Opinion report and take it into consideration when approving the Annual Governance Statement; and**
- 2) confirm that they are satisfied with the effectiveness of the system of internal control in line with Regulation 6 of the Accounts and Audit Regulations 2015**

### **Papers:**

NFNPA/RAPC 292/16

NFNPA/RAPC 292/16 – Annex 1 – Internal Audit Plan Performance for 2015/16

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**NEW FOREST NATIONAL PARK AUTHORITY  
Internal Audit Plan Performance for 2015/16**

Audits Undertaken as part of the 2015/16 audit plan	Assurance Level	Number of Recommendation Made		
		High Priority	Medium Priority	Low Priority
General Ledger and Bank Reconciliations	Reasonable	0	1	0
Accounts Payable	Draft			
Treasury Management	Substantial	0	0	1
Affordable Housing (Project)	Not completed			
Human Resources (Policy)	Substantial	0	0	0
Information Governance (Data Quality / Transparency)	Substantial	0	0	0
IT Controls	Reasonable	0	2	4
<b>Audits undertaken not included within the Audit Plan 2015/16</b>				
Payroll (Undertaken under Payroll SLA as no extra charge).	Reasonable*	<ul style="list-style-type: none"> <li>On testing results to date. Final report yet to be agreed with NFDC payroll service</li> </ul>		

Recommendation overview

<b>Audits Undertaken as part of the 2015/16 audit plan</b>	<b>Summary of Recommendations made</b>
General Ledger & Bank Reconciliations	(M) That accounts payable feeder reconciliations are completed promptly every month
Accounts Payable	DRAFT
Treasury Management	(L)To ensure investment instructions are confirmed in writing
IT Controls	(L)Status Computers support contract to be reviewed and discussions held re; increasing IT engineer's hours. (L)Consider drafting a policy to outline how Changes are managed within the Authority, specifically how they are recorded and communicated. (M)In order to track Incidents/Changes more adequately (and benefit from insight metrics over time/creating an audit trail) it is recommended that consideration is given to implementing new software tooling. (M)Restrict/monitor access to the internet to reduce risk of malware/viruses being introduced to the Authority's network. Additionally, this would have a positive impact on user productivity if users are only permitted to access the internet in their own time/lunch breaks. (L)Systems Support Manager and IT Engineer to schedule regular weekly planning times for IT (L)Rename Status Admin level account to show individual accountability.

**Other Work Undertaken during 2015/16**

<b>Work Detail</b>	<b>Comments</b>
Follow up of audit recommendations	Reviewed during the year – no concerns to report
Internal audit plan, preparation, & monitoring	Internal Audit Charter reviewed and approved by RAPC (7.3.16) Assurance Framework reviewed and approved by RAPC (7.3.16) Internal audit plan for 2015/16 and 4 year plan approved by CFO, CEO and RAPC on 9 <sup>th</sup> March 2015 Internal audit plan for 2016/17 and 4 year plan approved by CFO, CEO and RAPC on 7 <sup>th</sup> March 2016. Progress reports on the 2015/16 audit plan provided to RAPC in December 2015.
Internal Audit report /	Annual Auditors report 2014/15 approved by RAPC 1st June 2015.

assurance statement	Annual Auditors report 2015/16 – this report.
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For information only:

**Audit Opinions / Assurance Levels (as agreed within the Internal Audit Charter)**

<b>Assurance Level</b>	<b>Definition</b>
<b>Substantial Assurance</b>	A strong system of internal controls, designed and operating effectively.
<b>Reasonable Assurance</b>	A sound system of internal controls, but one where minor weaknesses were found in the system design, or a lack of compliance to the design.
<b>Limited Assurance</b>	Some weakness was identified in the overall system of controls, or the level of compliance resulted in risk to the achievement of system objectives.
<b>No Assurance</b>	Fundamental weakness was identified within one or more key controls, or controls were not operating effectively which may put at risk the achievement of the corporate control objective.