

## NFNPA/RAPC 332/17

### NEW FOREST NATIONAL PARK AUTHORITY

### RESOURCES, AUDIT AND PERFORMANCE COMMITTEE – 5 June 2017

### ANNUAL INTERNAL AUDIT PERFORMANCE AND OPINION REPORT – 2016/17

**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, due to frequency of the Audits and the sample testing that is undertaken.
- 3.2 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 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 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. The CIPFA self-assessment toolkit has been used to establish the level of compliance to the code of practice, the key areas that have been identified is the need to implement a Fraud Strategy and also update the Fraud policies. This work will be undertaken during 2017/18.
- 3.6 The 2016 edition of the Good Governance Framework was published in April 2016. The Principal Auditor has reviewed the new Guidance and recently updated the NFDC Framework and will be able to provide support if required in developing and promoting an updated good governance framework for the Authority.
- 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 2016/17 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 2016/17 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 (of those completed)</b>
Delivery of Audit Plan	95% of annual plan completed	86% (1 Audit in progress)
% 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%	100%
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%

4.7 The Affordable Housing Audit is currently work in progress. This Audit will be completed and finalised by the end of June.

## **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 and Diversity**

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

## **9 Recommendations**

- 9.1 **It is recommended that:**
- a) the Auditor's Annual Opinion report is noted and considered when approving the Annual Governance Statement and**
  - b) 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**

### **Papers:**

Annex 1 – Internal Audit Plan Performance for 2016/17

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**NEW FOREST NATIONAL PARK AUTHORITY  
Internal Audit Plan Performance for 2016/17**

Audits Undertaken as part of the 2015/16 audit plan	Assurance Level	Number of Recommendation Made		
		High Priority	Medium Priority	Low Priority
<b>Core Audit Work</b>				
General Ledger including budgetary control and Bank Reconciliations	Substantial	0	0	1
Accounts Payable	Reasonable	0	2	0
Treasury Management	Substantial	0	0	0
Income and Cash Management (including planning income)	Reasonable	0	6	2
<b>Other Management/ Operational Systems</b>				
Affordable Housing (Rental & Maintenance agreements)	WIP			
Our past Our future (Funding arrangements and compliance)	Reasonable	0	4	0
IT Controls	Reasonable	0	2	1
<b>Audits undertaken not included within the Audit Plan 2015/16</b>				
Payroll (Undertaken under Payroll SLA as no extra charge).	Reasonable*	*Final report yet to be agreed with NFDC payroll service		

Recommendation overview

Audits Undertaken as part of the 2015/16 audit plan	Summary of Recommendations made
General Ledger & Bank Reconciliations	(L)To address the Agresso system access identified and remove superfluous access.
Accounts Payable	(M)That the computer used to run the Kalamazoo system (cheque production system) is replaced with a newer machine. (M)That the dongle used for the Kalamazoo system for cheque payments is held securely when not in use.
Treasury Management	None
Income and Cash Management (including planning income)	(M)That the current Data Protection policy is updated to reflect The General Data Protection Regulation (GDPR). (L)That internal policies and procedure manuals are updated regularly. An annual review of these documents should be scheduled. (M) That the reception desk area is issued with NFNPA sequentially numbered receipt books for over the counter payments. (M)That external officers, including the Park Rangers, are issued with NFNPA sequentially numbered receipt books. (L)That all stock, with a monetary value, is recorded. (M)That credit/debit card refund are made through direct (phone) contact with the applicant. (M) That sensitive financial data is not sent via email, unless it has been encrypted. (M)That numbers are masked on the merchant copies of receipts.
Affordable Housing (Rental & Maintenance agreements)	
Our past Our future (Funding arrangements and compliance)	(M)That targets and timescales are agreed for finding additional funding for the OPOF scheme. (M)To update the HLF changes document to show a budget change of £2,122 for the amendment detailed above, to ensure that HLF have been fully notified of budget implications, and approval has been obtained where necessary. (M)To ensure amendments of the budget are approved in line with the terms of reference of the Our Past, Our Future Landscape Partnership

	<p>Scheme Board, and that retrospective approval is obtained for the change identified above.</p> <p>(M)To correct the misallocation of expenditure identified and ensure there are adequate procedures in place to ensure that misallocations are identified and corrected in a timely manner, to allow for effective budget monitoring/ management.</p>
IT Controls	<p>(L)Define criteria for appropriate incident priorities and publish on Sharepoint/ intranet.</p> <p>(M)To source an Incident/Change helpdesk portal</p> <p>(M)Following definition and publication of Service Level Agreements, it would be advisable to produce reporting for High priority events.</p>

#### Other Work Undertaken during 2016/17

Work Detail	Comments
Follow up of audit recommendations	Reviewed during the year – no concerns to report
Internal audit plan, preparation, & monitoring	<p>Internal Audit Charter reviewed and approved by RAPC (6.3.17)</p> <p>Assurance Framework reviewed and approved by RAPC (6.3.17)</p> <p>Internal audit plan for 2016/17 and 4 year plan approved by CFO, CEO and RAPC on 7<sup>th</sup> March 2016</p> <p>Internal audit plan for 2017/18 and 4 year plan approved by CFO, CEO and RAPC on 6<sup>th</sup> March 2017.</p> <p>Progress reports on the 2016/17 audit plan provided to RAPC in November 2016.</p>
Internal Audit report / assurance statement	<p>Annual Auditors report 2015/16 approved by RAPC 6th June 2016.</p> <p>Annual Auditors report 2016/17 – this report.</p>

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.