

## **NEW FOREST NATIONAL PARK AUTHORITY**

### **RESOURCES, AUDIT AND PERFORMANCE COMMITTEE – 1 JUNE 2015**

#### **ANNUAL INTERNAL AUDIT PERFORMANCE AND OPINION REPORT – 2014/15**

**Report by:** Lucinda Upton, Internal Audit Manager, 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 2011, requires that a “relevant body shall maintain an adequate and effective system of internal audit of their accounting records and control systems”. Regulation 6 specifically requires organisation to annually review the effectiveness of Internal Audit.
- 2.3 The key areas of this report are;
- the Internal Audit Manager’s 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 2014/15, it is the opinion of the Internal Audit Manager 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 audits 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 during the year 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 are creating 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 during 2015/16 in consultation with the Authority.
- 3.6 During 2014/15, CIPFA also 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. During 2015/16, it is expected that CIPFA and the Society of Local Authority Chief Executive (SOLACE) will publish a new framework. This may inform a new Good Governance Framework. Internal Audit will be able to provide support 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 2014/15 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, Chief Executive Officer and Chair of RAPC 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, with the exception to one in the Business Continuity audit. The risk has been accepted by management and this was reported to RAPC during the year. 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 2014/15 financial year.
- 4.6 Performance against the set indicators (as approved by Resources, Audit and Performance Committee) are;

Performance Activity	Target	Result /Comment
Delivery of Audit Plan	95% of annual plan completed	100%
% of Draft Reports issued within 10 days of completion of audit testing	100%	83%
% of Final Reports issued within 25 days of completion of audit testing	100%	83%
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%	94.7% (not all received back)

### Maintaining Performance and Standards

- 4.7 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.
- 4.8 In undertaking all audit reviews our officers have acted independently, objectively and ethically at all times.
- 4.9 Through internal self assessment, it is considered by the Internal Audit Manager that standards as laid down in the PSIAS have broadly been met, although opportunities for continuous improvement have been identified. The areas for improvement are recorded in an action plan

and reviewed by the Chief Finance Officer for progress. In addition it is the assessment of the Internal Audit Manager that the 5 standards, within the CIPFA publication 'The Role of the Head of Internal Audit in Public Service Organisations' have also been met.

## **5 Effectiveness of Internal Audit**

- 5.1 The Accounts and Audit (England) Regulations 2011 require organisations to annually review the effectiveness of Internal Audit. In order to determine the effectiveness of Internal Audit, Members need to consider the contents of this Auditor's Annual Report.

## **6. Acknowledgement**

- 6.1 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.

## **7. Equality and Diversity**

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

## **8. Recommendations:**

**It is recommended that the Committee:**

- 1. note the Auditor's Annual Opinion report and take it into account when approving the Annual Governance Statement, and**
- 2. confirms that it is satisfied with the effectiveness of Internal Audit in line with Regulation 6 of the Accounts and Audit Regulations 2011.**

**NEW FOREST NATIONAL PARK AUTHORITY  
Internal Audit Plan Performance for 2014/15**

Audits Undertaken as part of the 2014/15 audit plan	Assurance Level	Number of Recommendation Made		
		High Priority	Medium Priority	Low Priority
General Ledger & Bank Reconciliations	Reasonable	0	2	0
Accounts Payable	Reasonable	1	0	1
IT Controls	Reasonable	0	6	2
Business Continuity & Emergency Planning	Reasonable	0	1 (accepted risk)	0
Information Governance	Reasonable	0	2	0
Grants (limited scope and will be reviewed again in 2015/16)	Substantial	0	0	0
<b>Audits undertaken not included within the Audit Plan 2014/15</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

Audits Undertaken as part of the 2014/15 audit plan	Summary of Recommendations made
General Ledger & Bank Reconciliations	<p>(M) That accounts payable feeder reconciliations are completed promptly every month</p> <p>(M) That System Administration review access to the NFNPA General Ledger considering if all the parties listed in the group require access to the create function within the supplier Master File</p>
Accounts Payable	<p>(H) To review and update the Authority's Procurement policy following the changes in Public Contract Regulations 2015.</p> <p>(L) To ensure Purchase Orders are raised in compliance with policy.</p>
IT Controls	<p>(M) The ICT Acceptable User &amp; Security policy is due to be updated. (In relation to external users)</p> <p>(M) Validation exercise to ensure only the minimum required number of licences are in use for Acolaid system.</p> <p>(L) Examine content and medium available for the online learning package</p>

	<p>(L) Draft ICT Services stance on how Changes are managed. Ensure all team members and those involved (such as ELT) are made aware of how Changes are managed.</p> <p>(M) The Acceptable Use policy is to be reviewed and revised from end to end.</p> <p>(M) More delegation/job rotation and knowledge sharing. Named Second in Command to oversee ICT Services in the absence of ICT Manager.</p>
Business Continuity & Emergency Planning	(M) To test the Business Continuity Plan. Associated risks accepted by management and recommendation not agreed.
Information Governance	<p>(M) To review the Retention Schedule to ensure it is up to date and compliant with document retention requirements.</p> <p>(M) That the Authority updates it web pages to reflect Fraud - Powers, staffing and spend</p>

#### Other Work Undertaken during 2014/15

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 (9.3.15)</p> <p>Assurance Framework reviewed and approved by RAPC (9.3.15)</p> <p>Internal audit plan for 2014/15 and 4 year plan approved by CFO, CEO and RAPC on 10<sup>th</sup> March 2014</p> <p>Internal audit plan for 2015/16 and 4 year plan approved by CFO, CEO and RAPC on 9<sup>th</sup> March 2015.</p> <p>Progress reports on the 2014/15 audit plan provided to RAPC in October 2014.</p>
Internal Audit report / assurance statement	<p>Annual Auditors report 2013/14 approved by RAPC 2<sup>nd</sup> June 2014.</p> <p>Annual Auditors report 2014/15 – this report.</p>
Governance/AGS & Advice	<p>Follow up of External Audit's Governance Report recommendation undertaken within the General Ledger audit.</p> <p>Advice provided during the year</p>
Additional service (free)	Provided procurement for a new bank provider and implemented the new banking process and managed the bank migration.

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.