



Inshore Fisheries and
Conservation Authority

Agenda item B3

From: Francesca Chivers, Principal Internal Auditor, Kent County Council

To: Kent and Essex Inshore Fisheries and Conservation Authority – 20 May 2016

Subject: **Internal Audit Report 2015/16 and Internal Audit Annual Plan 2016/17**

Classification: Unrestricted

Past Pathway of Paper: None

Future Pathway of Paper: None

Summary: This report summarises the work that the Kent County Council (KCC) Internal Audit service has undertaken on behalf of the Kent and Essex Inshore Fisheries and Conservation Authority in 2015/16 and highlights any key issues with respect to internal control, risk and governance arising from that work. This report also sets out the proposed Internal Audit coverage for 2016/17 and asks the Authority to consider any other areas of risk which they would like Internal Audit to review.

Recommendation(s):

Review and approve the Annual Internal Audit Plan for 2016/17

The Authority is also asked to review and consider the Internal Audit findings from 2015/16

1. Introduction

1.1 Internal Audit is an independent, objective assurance and consulting function, which is designed to add value and help an organisation achieve its objectives through systematic evaluation of systems of risk management, governance and control. The remit of Internal Audit covers all systems, processes, services and risks within an organisation. Unlike External Audit, it does not focus on financial systems. The work carried out by Internal Audit should support the

Authority to complete the Annual Governance Statement and the annual review of internal control.

- 1.2 Internal Audit services for the Kent and Essex IFCA are currently provided by KCC. This arrangement is reviewed annually. KCC Internal Audit, as a public sector internal audit function, has to comply with the Public Sector Internal Audit Standards (PSIAS).
- 1.3 Under the PSIAS, the Head of Internal Audit is required to prepare a risk-based plan each year detailing the work that will be carried out in order to provide assurance to the Authority that effective systems of risk management, governance and control are in place. In order to determine the areas for inclusion in the Plan, Internal Audit should consult with senior managers and the Authority to determine key risks and areas on which assurance may be required.
- 1.4 Approval of the Plan rests with the Authority, who should review the Plan alongside the objectives of the Authority, and the risks to achieving those objectives, to ensure that there is sufficient coverage of key risks.
- 1.5 Internal Audit also has to report periodically to the Authority on the outcomes of the work undertaken. A summary of the work carried out, the findings and the recommendations raised are detailed in paragraphs 2.2-2.5 and **Appendix B**.

2. Internal Audit findings and annual plan

- 2.1 The work of Internal Audit at Kent and Essex IFCA to date has largely focused on systems of financial control. This is because the control objectives required to be reviewed for the Annual Return are principally finance-based. However, the Annual Return also contains provision for Internal Audit to provide assurance on any other areas of risk identified by the Authority. This report therefore asks the Authority to consider if, in addition to the core financial systems listed in **Appendix A**, there are any other areas across the Authority on which they would like independent assurance and review.
- 2.2 The PSIAS also require Internal Audit to report independently to the Authority on work carried out and the outcomes. Internal Audit work for 2015/16 covered controls in key financial systems used to underpin the year end statement of accounts, as required to support the Annual internal audit report. The year-end financial statement as presented in the Annual Return was reviewed. Financial systems and records underlying this statement were also tested, including both adequacy of controls in design and effectiveness of controls in practice. This included systems of budget setting and monitoring, payroll, income, assets and investments, banking and bank reconciliations and accounting statements. In addition to reviewing

the overall reported position, internal audit methodology includes sample testing of individual records and specific transactions to ensure that they are complete, valid, accurate and authorised.

- 2.3 The key finding of the audit work was that key controls in systems of payroll, budget setting and monitoring, income and banking were adequate in design and were operating effectively. The review also concluded that expenditure processed through Accounts Payable and the bank account was supported by valid invoices, was appropriately authorised, had been entered correctly in the accounts and that VAT had been correctly accounted for.
- 2.4 Asset management was identified as an area for development during 2014/15. Kent and Essex IFCA owns a number of portable assets that are relatively high value as a percentage of the Authority's annual turnover but, at the time of the audit, there were insufficient controls in place to minimise the risk of loss, misappropriation or theft. The recommendations raised in 2014/15 were followed up in 2015/16; 2 had been fully implemented and 3 were in progress. These are summarised in **Appendix B**.
- 2.5 In 2015/16, testing of systems of officers' expenses, petty cash and purchase cards also identified that the risk of fraud, error or irregularity could be reduced with more robust controls. Recommendations were raised in these areas; these are detailed in **Appendix B**, alongside officers' responses and the results of follow up work undertaken.

3. Financial Implications

- 3.1 The daily rate for KCC's internal audit work in 2016/17 will be £315. Internal Audit currently undertakes 2-3 days' work each year for the programme of financial controls. The required number of days would need to be reviewed and agreed with the Authority if assurance on additional areas of potential risk is required.

4. Legal implications

- 4.1 None identified.

5. Equalities implications

- 5.1 None identified.

6. Other corporate implications

- 6.1 None identified.

7. Governance

- 7.1 Internal audit reports twice yearly to the Clerk, the Chief IFC Officer and the Financial Adviser. Recommendations arising are assigned by senior officers to an appropriate member of staff to implement.

8. Conclusions

- 8.1 Although the issues identified did not prevent Internal Audit signing the relevant section of the Annual Return, a number of recommendations have been made in separate reports to officers to further improve controls. These are detailed in **Appendix B**. All of these recommendations have been accepted and, through further testing carried out at our final year visit, it can be reported that out of 9 recommendations made during our final 2014/15 and interim 2015/16 visit, 4 have been implemented and 5 are in progress. These recommendations will be followed up during the course of the 2016/17 work, alongside the 2 recommendations raised at the year end 2015/16 visit, to provide assurance that these have either been implemented or that the risks of not implementing the recommendations have been accepted at an appropriate level.

9. Recommendations:

9.1 The Authority is asked to review and approve the 2016/17 Annual Internal Audit Plan as attached at Appendix A; and

9.2 The Authority is recommended to review and consider the Internal Audit findings and follow up activity from 2014/15 and 2015/16

10. Contact details

Report Author: Francesca Chivers, Principal Auditor, Kent County Council 03000 415942 Francesca.chivers@kent.gov.uk	
--	--

Appendix A to Agenda item B3

Kent and Essex Inshore Fisheries Conservation Authority

Proposed Internal Audit Plan for 2016/17

The majority of the audit work will be done by sample testing a sufficient number of transactions to gain an assurance that the systems of financial control work effectively and provide accurate information to support the Authority's activities. It is therefore proposed that a review of the following control objectives is carried out to ensure they are being achieved throughout the year to a standard adequate to meet the needs of the Authority:

- ❖ Significant risks are assessed by the Authority to ensure objectives are achieved along with a review of the adequacy of the arrangements to manage these
- ❖ Appropriate books of account have been kept accurately throughout the year
- ❖ The annual levy requirement resulted from an adequate budgetary process with progress against the budget regularly monitored and reserves appropriate
- ❖ The Authority's financial regulations have been met, payments supported by invoices with expenditure approved and VAT appropriately accounted for
- ❖ Expected income fully received, based on correct prices, accurately recorded and promptly banked; and VAT appropriately accounted for
- ❖ Petty cash payments properly supported by receipts with expenditure approved and VAT appropriately accounted for
- ❖ Salaries to employees and allowances to members paid in accordance with Authority approvals, and PAYE and NI requirements accurately applied
- ❖ Complete and accurate Asset and Investments registers that are properly maintained
- ❖ Regular and year-end bank account reconciliations accurately carried out
- ❖ Accounting statements prepared during the year are prepared on the correct accounting basis, agreed to the cash book, supported by an adequate audit trail from underlying records, and where appropriate debtors and creditors accurately recorded
- ❖ Awareness to the potential for fraud, error or non-compliance, and any issues that may increase this potential, including a review of the arrangements for the security of systems and data.

If there are any matters that Kent and Essex IFCA would like to be included in the audit programme, or greater emphasis given to an item, then the proposed internal audit plan set out above can be amended.

Recommendation	Response	Follow Up Findings
Year End 2014/15		
<p>Accuracy of asset register The complete asset register should be reviewed against the assets held to ensure that it reflects the current position and that the register contains sufficient detail to identify the items. Any discrepancies should be investigated.</p>	Accepted	<p>In progress</p> <p>The asset register is currently being reviewed by the Financial Adviser. To date, we were advised that the assets in the Ramsgate office have been checked.</p>
<p>Annual asset check An annual asset check should be carried out by someone independent from the day to day maintenance of either the asset register or the equipment.</p>	Accepted	<p>In progress</p> <p>The asset register will be reviewed annually by the Financial Adviser. To date, we were advised that the Ramsgate Office has been checked.</p>
<p>Inventory A separate inventory should be compiled for any assets recorded as aggregate value and the inventory should be checked annually with the asset register.</p>	Accepted	Implemented
<p>Security marking Consideration should be given to security-marking portable items to act as a deterrent to theft and also to identify the item as belonging to the Authority in the event of recovery following theft.</p>	Accepted	In progress
<p>Disposal Accurate disposal records should be maintained and kept with the Asset Register.</p>	Accepted	Implemented

Mid Year 2015/16		
<p>Purchase Cards All subsistence should be claimed through the officers' expenses system and a valid, itemised receipt should be presented before authorisation. This is to ensure that expenses are appropriate, properly approved and made in accordance with the Purchase Card and Expenses Policies and Procedures.</p>	Accepted	<p>Implemented</p> <p>Sample testing confirmed that purchase cards had not been used for subsistence and there was a valid receipt for all purchase card transactions in our sample.</p>
<p>Purchase Card Authorisation Process The current purchase card authorisation process should be reviewed to ensure that authorisation levels are appropriate.</p>	Accepted	<p>In progress</p> <p>This will be addressed with the introduction of the new online approval system.</p>
<p>VAT A VAT receipt should be obtained for all purchases subject to VAT to ensure that VAT can be reclaimed.</p>	Accepted	<p>Partially Implemented</p> <p>For all transactions tested bar one, a valid VAT receipt had been obtained and VAT reclaimed.</p>
<p>Petty Cash The petty cash system should not be used for staff subsistence, which should be claimed through the Officers' Expenses system.</p>	Accepted	<p>Implemented.</p> <p>Review of petty cash transactions since November 2015 did not highlight any subsistence claims.</p>
Year End 2015/16		
<p>Data Protection The Kent and Essex IFCA should determine the length of time it is necessary to retain copies of personal documents and implement a process to ensure that they are securely destroyed when this timeframe has elapsed.</p>	Accepted	<p>NA. This will be followed up during 2016/17 audit testing.</p>

<p>Introduction of basic data protection training for all staff should be considered.</p>		
<p>Officers' Expenses Claims should include a sufficient level of detail so that actual and business miles can be verified.</p> <p>Spot checks should be completed regularly to ensure that mileage claims are accurate.</p> <p>All expenses claims should be reconciled against the payroll report to ensure accuracy and to detect duplication or error</p>	<p>Accepted</p>	<p>NA. This will be followed up during 2016/17 audit testing.</p>