

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

To: Kent and Essex Inshore Fisheries and Conservation Authority –  
23 May 2017

Subject: Internal Audit Report 2016/17 and Internal Audit Annual Plan  
2017/18

Classification: **Unrestricted**

**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 2016/17 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 2017/18 and asks the Authority to consider any other areas of risk which they would like Internal Audit to review.

**Recommendations:**

1. Members are asked to **REVIEW** and **APPROVE** the 2017/18 Annual Internal Audit Plan as attached at Appendix A
2. Members are recommended to **REVIEW** and **CONSIDER** the Internal Audit findings and follow up activity from 2015/16 and 2016/17

**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 2016/17 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 core controls in systems of budget setting and monitoring, income and banking were adequate in design and were operating effectively. In 2016/17, the Authority began using online banking to make payments rather than processing these through KCC Accounts Payable. We reviewed payments made and concluded that expenditure processed through 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 We identified an error that had been made in the calculation of one officer's annual pay award and a weakness in the application of controls around

purchase cards. These are highlighted in **Appendix B** along with the Authority's response to these issues. However neither issue had resulted in material financial loss and controls have now been strengthened in these areas.

- 2.5 As part of our audit programme, we also followed up the recommendations that had been raised in previous years that remained outstanding at the time of our last report to this Authority in May 2016. These recommendations, along with the results of our follow up work, are listed in **Appendix B**. In summary, all had been implemented bar some outstanding work relating to the management of portable, valuable assets in order to minimise the risk of loss, misappropriation or theft. This is in progress but not complete due to the recent purchase of the new vessel which has necessitated further work. We have agreed with officers a deadline of October 2017 to fully implement the recommendations and we will review this at our mid-year visit.

### **3. Financial Implications**

- 3.1 The daily rate for KCC's internal audit work in 2017/18 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 We have found systems of risk management, governance and control relating to core financial areas to be generally operating effectively in 2016/17. Although some recommendations were made to further improve controls, the issues found were not high risk and did not prevent us from signing our section of the Annual Return. All recommendations made will continue to be followed up 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.

**Recommendations:**

1. Members are asked to **REVIEW** and **APPROVE** the 2017/18 Annual Internal Audit Plan as attached at Appendix A
2. Members are recommended to **REVIEW** and **CONSIDER** the Internal Audit findings and follow up activity from 2015/16 and 2016/17

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