

South Downs National Park Authority

Internal Audit Annual Report and Opinion 2012/13

June 2013

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Introduction

Purpose of the report

- 1 This report summarises the internal audit work undertaken by Audit & Business Risk during the financial year 2012/13, in particular the outcomes of audit reviews and management actions. The report includes the Audit Manager's Annual Opinion on the National Park Authority's internal control environment.

Role of Internal Audit

2. Internal Audit is a statutory requirement for National Park Authorities under the Accounts & Audit Regulations 2011, which states that 'a relevant body shall maintain an adequate and effective system of internal audit of its system of internal control in accordance with proper internal audit practices.'
3. The service is provided by Brighton and Hove City Council's Internal Audit and Business Risk team.
4. Our role is to provide independent and objective assurance on the adequacy of the Authority's internal control environment by evaluating its effectiveness as its contribution to the proper economic, efficient and effective use of resources.
5. Our approach is to adapt and respond the Authority's risk profile and emerging issues, to ensure our work remains focused on the areas of highest risk and providing added value to services.
6. Our work also assists the Chief Finance Officer in the discharge of her responsibilities as the Authority's Section 151 Officer.

Overview of the audit work carried out

7. The agreed 2012/13 Audit Plan included seven specific audit reviews. All seven reviews were completed plus one investigation into a chequebook theft/ fraud. In addition we carried out a review of the Set-up of the National Park Authority that was specifically requested and agreed by the Standards and Audit Committee. Other days in the original 2012/13 agreed Internal Audit Plan were for audit planning and Standards and Audit Committee Support, training and advice, risk management advice and workshop facilitation plus support for the production of the Annual Governance Statement.
8. The original plan included a total of 35 days. A total of 38.5 days were used which included an additional 1.5 days risk management work (facilitation of workshops) plus a further 2 days on counter-fraud work relating to the investigation and reporting on the petty cash chequebook theft/ fraud. In addition, 15 days were approved and used for the Review of the Set-up of the National Park Authority.
9. The service is delivered by audit staff from Brighton and Hove City Council with one review being carried out by our partner Deloitte Public Sector Limited. There were no significant resourcing issues during this year.

Annual Opinion

10. The level of assurance provided is based on the internal audit work carried out during the year. In assessing the level of assurance given, the following have been taken into account:
- Internal audit work completed during 2012/13
 - Follow-up action taken following agreement and issue of final audit reports
 - Individual audit opinions given in internal audit reports
 - Any significant recommendations not accepted by management and the consequence of those risks
 - Impact of significant changes to the internal control environment; and
 - The quality and performance of the service and extent of compliance with the CIPFA Code of Practice for Internal Audit (from April 2013 replaced by the Public Sector Internal Audit Standards)
11. We are satisfied sufficient assurance work has been carried out to form an opinion on the adequacy and effectiveness of the Authority's internal control environment. The internal control environment comprises internal control, risk management and governance arrangements.
12. Our annual opinion is as follows:-

13. Based upon the internal audit work undertaken, our overall opinion is that **Reasonable Assurance** can be provided that an effective system of internal control is in place at the National Park Authority for the year ended 31 March 2013.
14. Our audit work during the year has highlighted some weaknesses and specific actions for improvement of the control environment. We will work with management to ensure the implementation of these actions within appropriate timescales.

Internal Audit Coverage and Output

15. Table I summarises the audit opinions in the 2012/13 reviews and the number of recommendations made. Where audits were carried out in the preceding financial year the direction of travel is also shown.

Table I.

Audit	Report Status	Assurance 11/12	Assurance 12/13	Direction of Travel	No. of Recommendations
Procurement	Final	Limited	Reasonable	↑	4
Payroll	Final	Reasonable	Reasonable	□	5
Creditors/ Accounts Payable	Final	Reasonable	Reasonable	□	5
IT (Managed Service Agreement)	Final	No audit	Reasonable	N/A	7
Planning Service	Final	Reasonable	Reasonable	□	5
Capital Expenditure	Final	No audit	Substantial	N/A	1
Grant Funding	Final	No audit	Reasonable	N/A	7
Cheque Book Losses	Final	No audit	N/A	N/A	4

Fraud and Irregularities

16. An unplanned investigation was carried out in the year following an attempt to defraud the SDNPA of approximately £60,000 through the fraudulent presentation of 9 stolen petty cash cheques. Controls operating by the banks in liaison with the internal Banking and VAT Team prevented any loss.
17. The theft, attempted fraud and the control arrangements relating to these cheques were investigated and reported on. In addition the matter was formally reported to the police and recommendations were made in relation to the security of petty cash, cheques, other documentation and the insurance arrangements in place. These recommendations were all implemented.

Unplanned Audits

18. The September 2012 meeting of the Standards and Audit Committee approved an Internal Audit Review of the Set-up of the SDNPA. The purpose of the review was to assist in the delivery of continuous improvement, to embed any good practice and identify and address any areas for improvement.
19. The outcome of the review was reported back to the Standards and Audit Committee at the March 2013 meeting. In addition a copy of the report was presented to the Authority Meeting on 16 April 2013
20. The report contains a total of 11 recommendations for improvement either for the SDNPA or for consideration by Defra in relation to the set-up of any future similar bodies.

Support to the Standards and Audit Committee and other Corporate Support

21. Support was provided to the Standards and Audit Committee during the year in accordance with the 2012/13 Internal Audit Plan. This included preparation of audit plan, monitoring and reporting audit progress and liaison with senior officers and external audit. As well as Standards and Audit Committee attendance and reporting, it has also included the provision of training, advice on financial controls and the delivery of Bribery Act training to an Authority Meeting.

Conclusions arising from audit reviews

22. None of the 2012/13 Internal Audit Reviews resulted in a "Limited Assurance" opinion. This is an improvement on 2011/12 where two audits fell within this category. The conclusion on the Procurement Audit for 2012/13 was Reasonable demonstrating an improvement against the Limited Assurance opinions given in the two preceding years. Nevertheless, there will still issues arising and this is an area where continuing focus is required to ensure compliance with legislation, best practice and that procurement arrangement always demonstrate Value for Money.
24. The 2012/13 Audit of the Planning Service concluded Reasonable Assurance, the same as the preceding years. Although key controls remain in place, we raised some concerns about the promptness of recovering planning fees from the agent Local Planning Authorities.

25. Our opinion on the Payroll and Creditors systems remain unchanged from the last financial year and remains as Reasonable Assurance. Whilst there remain control weaknesses that we would hope to be addressed neither audits identified any significant errors resulting from the remaining weaknesses.
26. The audit of Grant Funding was finalised in September 2012 and gave reasonable assurance. Recommendations were included to address weaknesses in the payment controls and documenting some aspects of decisions made. In addition there were four recommendations relating to the need to improve the monitoring arrangements once grant funding has been awarded.
27. This years IT audit was a non-technical review that focused on the Managed Service Agreement for provision of services by the Authority's external provider. The review identified some issues with the process and documentation relating to the letting the contract. However, none of these impacted on the outcome of the tender process or who the contract was awarded to.
28. Processes are in place to ensure the tracking of the implementation of recommendations.
29. The majority of the 38 recommendations made were medium priority recommendations. The recommendations made may be categorized as below. (Table 2).

Table 2.

Type Of Recommendations	Total Number
Improvements to Policies and Procedures	7
Authorisation Controls	7
Insufficient evidence of transaction, or retention of documentation	5
Security and Insurance Related	3
Reporting and Management Information	6
Improvements to reconciliations	1
IT Controls	1
Data Protection	1
Other	7
Total	38

Internal Audit Performance

30. Appendix D of the 2012/13 Internal Audit Strategy and Plan included a number of performance indicators for the delivery of internal audit services.
31. Performance against these targets is detailed below in Table 3.
32. Performance on two on the indicators "Productivity and Process Efficiency" did not meet expectations. For the first indicator only 57% of draft audit reports were issued within 10 days of the completion of fieldwork. In addition only 71% of final reports were issued within 10 days of agreement by the clients. These shortfalls were caused by delays in a small number of audits which should not re-occur this financial year.

Table 3

Aspect of Service	Performance Indicators	Achieved (Targets in brackets)
Cost and Quality of Input	<ul style="list-style-type: none"> Planned days delivered 	<ul style="list-style-type: none"> 100% (100%)
Productivity and Process Efficiency	<ul style="list-style-type: none"> Achievement of annual plan (%) Issue of draft report after completion of fieldwork (Within 10 Days) Issue of final report after agreement with client of draft (Within 10 Days) 	<ul style="list-style-type: none"> 100% (95%) 57% of audits 71% of audits
Compliance with Professional Standards	<ul style="list-style-type: none"> CIPFA Code of Practice for Internal Audit in Local Government (2006) 	<ul style="list-style-type: none"> To follow
Our Staff	<ul style="list-style-type: none"> Professionally Qualified Annual Training & Development Received (Minimum 5 days) 	<ul style="list-style-type: none"> 80% (80%) Average 5 Days (5 days)

Appendix A**Assurance Levels - Definitions**

Categories of Assurance	Assessment
Full	There is an effective system of control designed to ensure the delivery of system and service objectives. Compliance with the controls is considered to be good. All major risks have been identified and are managed effectively.
Substantial	Whilst there is an effective system of control (i.e. key controls), there are weaknesses, which put some of the system/service objectives at risk, and/or there is evidence that the level on non-compliance with some of the controls may put some of the system objectives at risk and result in possible loss or material error. Opportunities to strengthen control still exist.
Reasonable	Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system. There is therefore a need to introduce additional controls and/or improve compliance with existing controls to reduce the risk to the Authority.
Limited	<p>Weaknesses in the system of control and/or the level of compliance are such as to put the system objectives at risk.</p> <p>Controls are considered to be insufficient with the absence of at least one critical or key control. Failure to improve control or compliance lead to an increased risk of loss to the Authority.</p> <p>Not all major risks are identified and/or being managed effectively.</p>
No	<p>Control is generally weak or non-existent, leaving the system open to significant error or abuse and high risk to the Authority.</p> <p>A high number of key risks remain unidentified and/or unmanaged.</p>