

Report to	<b>Governance Committee</b>
Date	<b>21 February 2017</b>
By	<b>Internal Auditor</b>
Title of Report	<b>Internal Audit Progress and Implementation Report</b>

**Recommendation: The Committee is recommended to note progress against the Internal Audit Strategy and Annual Plan (2016/17) and the implementation of recommendations previously made.**

## **1. Summary and Background**

- 1.1 This report details progress against the Internal Audit Strategy and Annual Plan 2016/17 including reports that have been issued and the implementation of recommendations.
- 1.2 The Internal Audit Strategy and Annual Plan 2016/17 were approved by the Governance Committee on 25 February 2016. It specifies the framework to deliver the service that ensure the most appropriate use of internal audit resources to provide assurance on the Authority's control environment and management of risks.
- 1.3 The plan sets out an annual schedule of those systems, services and functions to be covered. These include the audit of core financial systems.
- 1.4 The delivery and monitoring of this work plan is core to providing a systematic and risk based approach to the internal audit of the Authority's systems and services.
- 1.5 Tracking of recommendations ensures that agreed control improvements are implemented.

## **2. Progress against the Audit Plan for 2016/17**

- 2.1 There have been three reports issued since the last Governance Committee meeting. The assurance opinions given are defined in **Appendix 1**.

<b>Audit Plan</b>	<b>Progress to Date</b>	<b>Assurance Level</b>
Creditors/ Accounts Payable	Final report	Substantial
Grant Payments	Final report	Substantial
Procurement	Final report	Substantial

- 2.2 As agreed at 29 September 2016 Governance Committee, a copy of the Executive Summary Report for each audit is now attached at **Appendix 2**. Also, a full copy of the report is sent to the Chair and Independent Members of the Governance Committee.
- 2.3 There is one planned audit remaining from the 2016/17 Annual Plan, Planning Performance, which is due to be finalised for the next Governance Committee.

## **3. Additions, deletions and amendments to the Audit Plan**

- 3.1 There have been no changes to the plan to date.

## **4. Implementation of Recommendations**

- 4.1 **Appendix 3** provides a list of those recommendations from previous audit reports which have not yet been implemented. Of these 9 have not yet reached their implementation due dates and 5 are overdue for action.

## 5. Other Implications

Implication	Yes/No
Will further decisions be required by another committee/full authority?	No
Does the proposal raise any resource implications?	No. The Internal Audit plan should be delivered within the agreed audit fee.
How does the proposal represent Value for Money?	The Internal Audit Service is an external contract with BHCC which formed part of a wider procurement of financial services.
Are there any Social Value implications arising from the proposal?	No
Has due regard has been taken of the South Downs National Park Authority's equality duty as contained within the Equality Act 2010?	Any such considerations are taken into account with individual audit reviews as appropriate.
Are there any Human Rights implications arising from the proposal?	No.
Are there any Crime & Disorder implications arising from the proposal?	No, but the service includes the provision of advice and investigation of frauds and irregularities when required.
Are there any Health & Safety implications arising from the proposal?	No, but individual audits consider health and safety risks where appropriate.
Are there any Sustainability implications based on the 5 principles set out in the SDNPA Sustainability Strategy: 1. Living within environmental limits 2. Ensuring a strong healthy and just society 3. Achieving a sustainable economy 4. Promoting good governance 5. Using sound science responsibly	No, but individual audits consider these principles where relevant, particularly around the Principle 4, "Promoting good governance"

## 6. Risks Associated with the Proposed Decision

- 6.1 Internal Audit has an important role to play in relation to effective risk management for the organisation. The SDNPA risk register is considered when developing the Internal Audit Plan and Strategy and the planning of individual audit reviews. Audit review and testing of controls is orientated towards these risks plus the operation controls within individual systems and services.

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Appendices  
1. Assurance Opinions – Definitions  
2. Executive Summary reports  
3. List of recommendations that have not been implemented.  
SDNPA  
Consultees Chief Executive; Director of Countryside and Policy Management; Director of Planning; Chief Finance Officer; Monitoring Officer; Legal Services, Head of Governance; Countryside and Policy Managers, Planning and Technical Manager  
External  
Consultees None  
Background Documents Internal Audit Strategy and Plan 2016/17.  
Individual audit reports.



Assurance Opinions - 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 of 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 leading 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>

## Executive Summary – Creditors

### Introduction

The National Park Authority makes payments to its suppliers through the Civica Financials System hosted by Brighton & Hove City Council. The processes use both the Civica Purchasing and Creditors modules of this system. Supporting documentation is scanned and retained using the Idox EDRM application.

From 1 August 2015 to 30 July 2016, the following levels of activity were recorded.

- No. of Payments: 3,015 payments
- Value of Payments: £8.2 m (net of VAT)
- New Suppliers set up: 191

Key risks relating to the Creditors system include unauthorised or fraudulent payments, duplicate payments and that payment records not maintained in accordance with HMRC requirements.

This audit forms part of the agreed Internal Audit Plan for 2016/17.

### Audit Opinion

**Substantial Assurance** is provided on the effectiveness of the internal controls operating for the Authority's Creditors payment system.

This opinion means that effective controls are in place to manage the key risks to the service. Areas where further development of these controls are required detailed in the body of the report.

### Key Conclusions

The summary below details the key conclusions arising from the audit review. Where there are any issues that require recommendations to address residual risks these are communicated in full in the detailed report.

- Financial policies and procedures to support the effective operation of the Authority are in place, but would benefit from having an annual review to ensure they remain current and reflect the organisational management structure. (Rec: R1)
- Authorisation rights embedded within the Payments system have not been updated to take account when a former member of staff left that role. Control would be strengthened through undertaking an annual review of access rights to the Finance Systems. (Recs: R2 & R3)
- For the majority of our testing, orders were raised on the system after the invoices had been received. This means that the key authorisation control is moved to the end of the process where it is less effective. Orders should be raised and authorised in advance of committing to purchase. (Rec: R4)
- Our testing also highlighted one instance where a VAT invoice had not been received, yet the VAT element was still claimed. This should only be reclaimed when there is a valid VAT Invoice and requires review to correct it. (Recs: R5 & R6)

## Executive Summary - Procurement

### Introduction

Effective procurement arrangements are a key component of the Authority's arrangements for ensuring Value for Money in the delivery of its objectives. In addition, the Authority must ensure accountability and transparency in its procurement decisions.

The Authority purchases a number of different supplies and support services provided from both commercial and public sector providers.

This audit forms part of the agreed Internal Audit Plan for 2016/17

### Audit Opinion

**Substantial Assurance** is provided on the effectiveness of the internal controls over the operation of the procurement system.

This opinion means that controls are in place to manage the key risks to the system.

### Key Conclusions

The summary below details the key issues arising from the audit review. Where there are any issues that require recommendations to address residual risks these are communicated in full in the detailed report.

- Key guidance documents relating to the procurement process are available on the Authority's website and intranet. It is considered good practice that these are reviewed on an annual basis. The Procurement Guide, which sets out the internal processes for purchasing at the Authority, has not been updated since 2013. In particular, the EU thresholds specified are no longer up to date. (Rec: R1)
- The Authority uses IN-TEND, a web-based solution, to support the strategic activities of the procurement lifecycle. From our testing, contracts were in place for those activities reviewed and Contract Standing Orders were complied with.
- The procurement process; including tender advert (ITT), sufficient number of tenders sought, formal evaluation of bids against the cost/quality ratio specified, and issue of award letter was reviewed. From our testing, no concerns were noted.
- Authorisation limits for the payment of invoices are considered reasonable and are embedded into the Creditors system. All payments made were in accordance with the contract terms.

## Executive Summary - Grant Payments

### Introduction

SDNPA administer two main grant funds:

#### Sustainable Communities Fund (SCF).

The SCF is a rolling fund to provide grants to community and voluntary groups. An organisation can apply for funding if their project brings social, environmental, economic or cultural benefits to a community within the National Park. Grants are limited to between £5k and £20k. In 2015/16 a total of £67,255 was committed for 13 new projects.

#### Strategic Fund (SF)

The Strategic Fund, used to support major projects, enables the SDNPA to build strong strategic partnerships delivering significant benefits to the National Park, the people who live, work and spend their leisure time here. The table below sets out the current financial position of the Strategic Fund and committed support.

	Budget (£) 2016/17	Budget (£) 2017/18	Budget (£) 2018/19	Budget (£) 2019/20	Budget (£) 2020/21
Annual budget	220,000	220,000	220,000	* tbc	* tbc
Carried Forward	127,471	190,947	329,973	484,199	447,425
<b>TOTAL</b>	<b>347,471</b>	<b>410,947</b>	<b>549,973</b>	<b>484,199</b>	<b>447,425</b>
Requirement for projects	156,524	80,974	65,774	36,774	36,745
Estimated funding available	190,947	329,973	484,199	447,425	410,680

\* no assumption for future funding made

Key risks include funding schemes that do not meet the NPA's guiding principles and vision, that funding does not deliver value for money or that individual projects do not meet their approved objectives and timescales.

This audit forms part of the agreed Internal Audit Plan for 2016/17.

### Audit Opinion

Substantial assurance is provided on the effectiveness of the internal controls over the operation of this system.

This opinion means that controls are in place to manage the key risks.

### Key Conclusions

The paragraphs below summarise the main findings and conclusions arising from the audit review. Where there are any issues that require recommendations to address residual risks these are communicated in full in the detailed report.

- Our testing concluded that systems are in place that ensures the fair and transparent allocation of all grants.
- There is effective financial control and authorisation of grant payments. During 2016/17 a reconciliation between the manual spreadsheet monitoring and general ledger was undertaken, and controls were strengthened with the introduction of Projects for the South Downs IT system which will allow for robust monitoring along the whole life-cycle of each project.
- There are effective processes for monitoring the use of grant monies and the measurement and evaluation of outcomes, including the regular reporting of progress at Governance Committee. An issue was highlighted over the handover process when a member of staff leaves with respect to shortfall in retaining project monitoring evidence.



**List of recommendations that have not been implemented.**

(All recommendations are graded as High, Medium or Low priority).

**Overdue Recommendations**

<b>Audit</b>	<b>Recommendations (with priority)</b>	<b>Due</b>	<b>Comments</b>
Planning Income (2015/16)	(R1) A process for reconciling and identifying Refunds and Unidentified Income should be developed to ensure that the income reconciliation process is complete and effective. (Medium)	01/03/16	Service management will be meeting with BHCC in January to discuss the further development of this process
Planning Income (2015/16)	(R4) A document which clearly identifies the process for reconciling the income held by LPA's and all parties' roles and responsibilities within the process should be produced. (Medium)	01/09/16	The current document needs updating. This is aimed to be completed by the end of the March 2017, following the meeting in January (above).
Planning SLAs (2015/16)	(R1) Changes to be made to the agency fee payments and the wider funding agreements should be treated as a priority by SDNPA, with governance and monitoring structures to reflect this priority. (High)	01/12/16	A detailed report on progress was presented to the full NPA on 29 Nov 16. It agreed, in principle, to enter new Agreements with willing host authorities (with the recommended changes to payment arrangements) and to extend the current arrangements by 6 months to enable these arrangements to be developed robustly. It is currently anticipated that this work should be completed by July 2017.
Purchasing Cards	(R1) That training tailored to SDNPA is developed and rolled out (Low)	30/12/16	BHCC Banking team are in the process of completing this with the learning development team.
ICT Health check	(R1) The Park Authority create a simple, and concise System Specific Security Policy which outlines system use, governance arrangements, security, and IT support measures, for each of the core applications in use. This should include a "service centric" risk review to ensure that all interdependencies and associated risks are captured and understood. (Low)	31/12/16	System Specific Policies have now been created for the core applications that support the delivery of these critical services ie: <ul style="list-style-type: none"> <li>· Uniform and the associated Document Management System.</li> <li>· SDNPA Website</li> <li>· SDNPA's Outlook system</li> </ul> These System Specific Policies are currently being reviewed and the finalised documents will be added to the 'BCP Battle Box' documentation. The next planned distribution of the BCP Battle Box memory sticks (which will include these System Specific Policies) is expected to be in March 2017.

## Recommendations not yet due

Audit	Recommendations (with priority)	Due	Update
Planning SLAs (2015/16)	Provision to be made in the accounts to allow for the potential for LPA's to seek additional payment for handling an increase in planning applications. (Medium)	01/04/17	
Creditors	(R1) That the core financial policies and procedures are subject to an annual review and update as appropriate. (Especially with consideration to recent organisational structure changes within SDNPA.) (Medium)	31/03/17	
Creditors	(R2) That the authorisation rights should be reduced to read only for the BHCC accountant and access should be removed for the former 'Interim Head of Corporate Services (Medium)	31/03/17	
Creditors	(R3) An annual review of access rights to the financial system should be undertaken (Medium)	31/03/17	
Creditors	(R4) A reminder should be issued to all staff that orders should be raised and authorised prior to ordering goods or services. (Medium)	31/03/17	
Creditors	(R5) VAT should only be reclaimed if a valid VAT invoice has been supplied. (Medium)	31/03/17	
Creditors	(R6) That for the CHAPS payment to WKB Nissan Waterlooville a VAT invoice is requested or the reclaimed VAT is reversed. (Medium)	31/03/17	
Procurement	(R1) The Procurement Guide should be reviewed on an annual basis, and in particular should be updated to reflect the current EU thresholds and regulations. (Medium)	31/03/17	
Grant Payments	(R1) Procedures for handover and retention of evidence are required when key staff leave. (Medium)	30/06/17	